★ MARKET TEST AHEAD ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

NOVEMBER 21, 1959 85 CENTS

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By SIDNEY WALLENSTEIN

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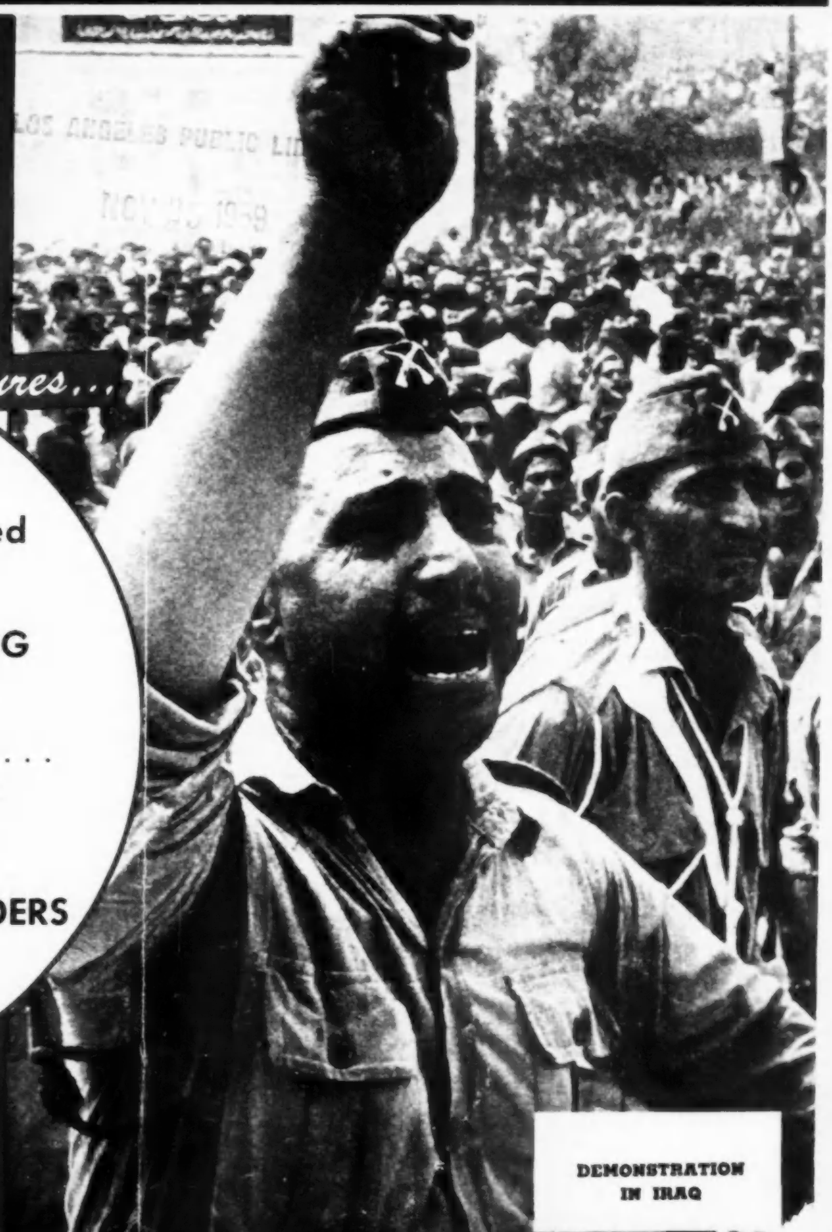

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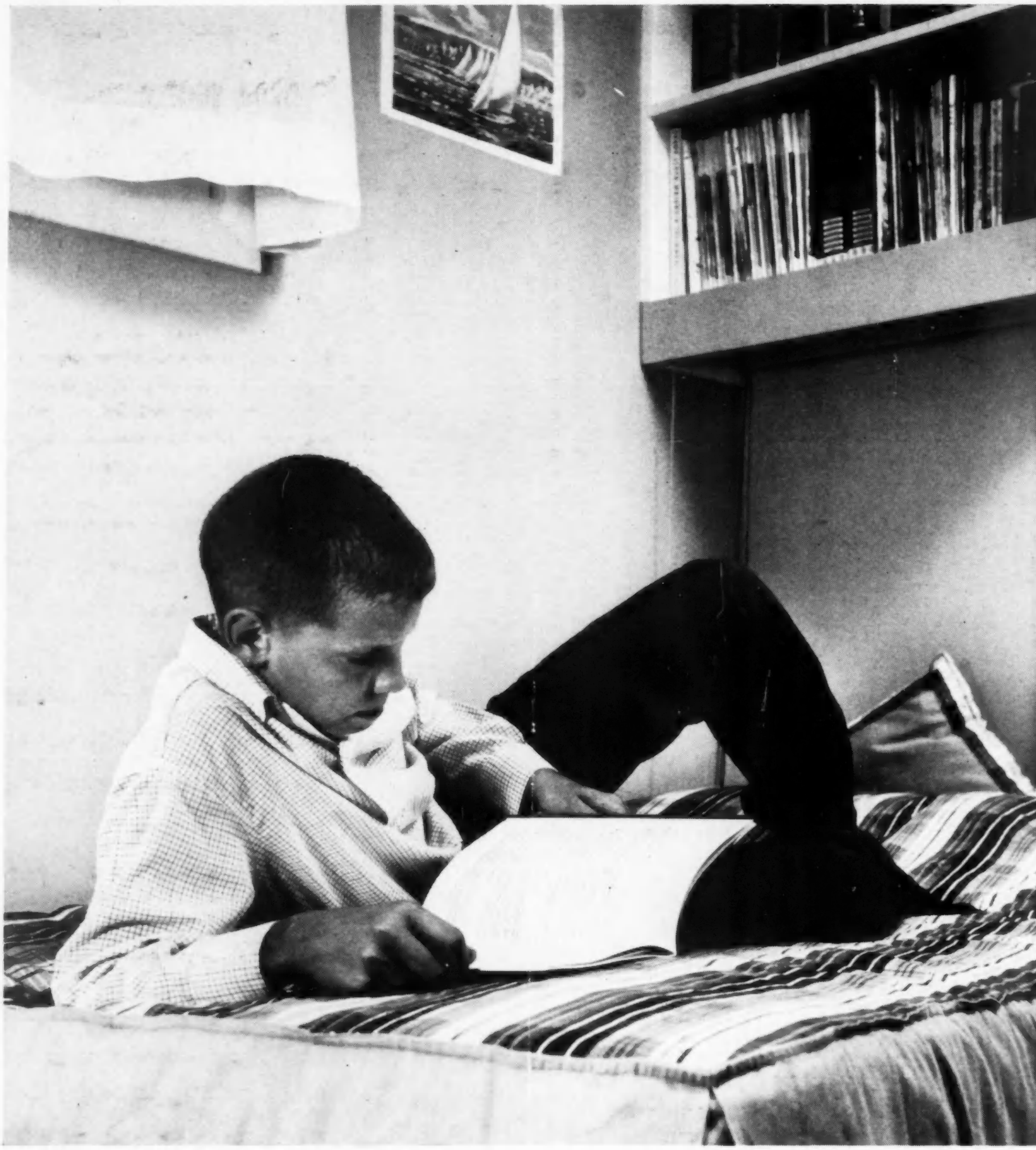

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 105 No. 5 November 21, 1959

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EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address — Tickerpub

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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

THE DEDICATION OF A SINGLE MAN . . . The whole world has been shocked into admiration for Charles de Gaulle, who, through his unswerving love and faith, has once more raised his beloved France to a pinnacle of power on the Continent.

In the space of two short years he has revived the esprit de corps of the French people and faith in their future as a great nation—invigorating the tottering economic and political position of the country.

And now, his monumental force of character, and the very stubbornness for which he has been criticised—has brought the realization to the rest of the world that France occupies a key position not only in Europe but in world affairs.

Of all the Western allies, France is the only one that stands firmly, and offers a definite plan against further encroachment on the free world by the Russian-Chinese Communist conspiracy.

Today the voice of France in international affairs commands a respect that it has not enjoyed since the beginning of World War II. As part of his plan General de Gaulle is insisting that the various issues in conflict be spelled out, so that a complete settlement can be worked out at the Summit Conference instead of leaving things hanging in mid-air as has been the case for much too long. He is calling for a searching examination of Western policy, cooperation on a hard-hitting realistic basis for NATO—nuclear strategy—and European integration which includes solving of the long-standing problem of two Germanies.

His plan shows that he is thinking in terms of the various contingencies that may arise out of the current differences of policy and conflict of interests between the Western powers and the possible outcome under various contingencies. In the four points listed, he took into consideration:

1—The possibility that either Khrushchev or Mao, separately or together, might go to the extreme measure of starting a war. What then?

2—That with a future political shift in the U.S.A., the two powers having a monopoly of nuclear arms might decide to divide the world between them. What then?

3—Who can say whether in a struggle between the two nuclear rivals, Western Europe could not be wiped out by Moscow, and Central Europe by the U.S.A.?

4—Who knows whether, following a political or social upset, the two rivals might not unite. In that event, he says that France, by providing itself with nuclear arms, would render a service to world equilibrium.

Regardless of what one may think of such possibilities, General de Gaulle, in accordance with his well-known psychology, is preparing for the worst, in the belief that it may never come if he does. He is seeking to protect his country against travail and disaster—or any contingency or error on the part of his allies.

And from this approach to the problem, what stands out is the devotion and love of this man for his country. I find it most thrilling. It gives rise to the faith that regardless of what is ahead, the emergence of a single individual of noble character can turn the tide, now as in the past, and give inspiration and hope to his fellow man.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907—*"Our 52nd Year of Service"*—1959

Behind-the-Scenes Story . . .

How Ruthless Use of Power By Steel Union Forced Kaiser to Settle

— Its potential impact on industry — our people — the dollar

By Sidney Wallenstein

THE steel workers have gone back to their jobs under the 80-day Taft-Hartley injunction ordered by President Eisenhower and approved by the nation's highest court.

The return of the industry to production will temporarily relieve some of the critical steel shortages resulting from the most damaging steel strike that the country has ever experienced. But it will not assure an early settlement of the dispute between the steel industry and the United Steel Workers. Nor is it likely to end the steel union's efforts to impose on the entire steel industry the inflationary settlement which it made with the Kaiser Steel Corporation. Only new legislation designed to curb the monopoly power of giant unions like the steel union can permanently overcome the menace of wage-push inflation.

In its basic details, the Kaiser settlement presents a sordid and frightening picture. Efforts are being made by pro-union forces to present the Kaiser move as a "statesmanlike" compromise when it is nothing of the sort.

Here are the facts:

● Whatever Kaiser and the union may now say, the settlement was inflationary. Mr. Edgar Kaiser, President of the Kaiser Steel Corporation virtually admitted this was so in his first announcement of the agreement, when he stated:

"We believe that inflation cannot be brought to a dead stop by labor and management in any one American industry, and certainly cannot be halted entirely by any one industry in any one round of negotiations."

It would be contrary to all our experience in the past, if the steel industry could offset, through gains in productivity, the cost of the Kaiser agreement, estimated at nearly 5 per cent per year during the 20-month life of the contract.

Over recent years, the steel industry has been able to improve productivity at an average rate of only 2.6 per cent a year, according to official government figures. This is about one-half the rate of the annual labor cost increase called for under the Kaiser contract. Moreover, the agreement provides that all of the gains in productivity—inadequate as they promise to be—will go to labor.

A minus quantity will be available for the investors who have been primarily responsible for the annual gains in productivity. How long will investors continue to tolerate such an unfair division of the fruits of investment, without calling upon management to halt unprofitable commitments of capital?

No Holds Barred in Kaiser Settlement

● The Kaiser settlement—and the manner in which it was achieved—placed in bold relief the ruthless monopolistic power of the steel union. The union brought Kaiser to terms not merely by closing down its steel operations, but by threatening to call a strike against Kaiser Aluminum & Chemical Corporation. These are the two largest companies in the Kaiser group.

Kaiser Aluminum had been operating under an extension of the expired contract, granted by the United Steel Workers. The Big Three aluminum companies, Alcoa, Kaiser and Reynolds, had received such an extension.

But we understand the Kaiser interests were told by the union that their aluminum company would be singled out for an immediate strike,—unless Kaiser Steel accepted the terms demanded by the union.

Here we have an instance of a union which is able to close down 85 per cent of the nation's steel capacity. Not content with that, the union, by extending its power across industry lines, is able to call strikes against employers in aluminum, machinery, can manufacturing and many types of metal working, etc.

● The Kaiser settlement gives no assurance that industry would be able to maintain progress in efficiency even at the rate of recent years. *The major steel companies are offering a rise in wages and benefits of 33 cents an hour for a three-year contract, but they have made this offer contingent on the union's agreeing to changes in local work rules which would eliminate wasteful practices.*

No End to Waste and Featherbedding

This problem of waste and featherbedding arises from the local work rules clause of the master steel contract—Section 2B—which denies to management the right to eliminate inefficient "past practices." The steel companies were willing to submit this disputed clause to outside arbitration. But the union rejected this reasonable offer and obtained from Kaiser an agreement under which the work rules issue would be settled on a case-by-case basis, through "mutual agreement" of the union and management. This means that progress can be achieved slowly, at best, and the union will be able to block any improved practices which might involve a layoff of unneeded workers.

Union Given Right to Block Mechanization

● But the Kaiser settlement not only means a low rate of progress—it means that the union is in a position to turn back the clock for the first time and prevent the employer from making investments in technological improvements which would result in savings in manpower and in money. The union will be able to do so, for the joint committee which is to be set up to take care of the work rules issue will also be given specific jurisdiction over manpower savings made possible by new investments in plants and machinery. Up to now, the union has never had the right to block mechanization.

Handicap race

● A threat to management's "right to manage" of even greater proportions is presented by Kaiser's agreement to set up a "three-party" committee—including representatives of the union, management and the public—to find ways "by which any cost savings can eliminate the necessity for regular contract deadlines and incessant rounds of new negotiations."

The committee's aim would be to devise some new long term wage formula, under which the union would gain automatic increases. This is a worthwhile objective, if it could be achieved in a sound, non-inflationary way. But there are indications that even before this committee has been appointed, that Kaiser is prepared to make revolutionary concessions.

New Profit Sharing Plan for Workers—but not for Stockholders

For Edgar Kaiser has indicated that he has given serious consideration to a profit-sharing-program for workers, corresponding to the similar profit-sharing incentive plan for executives. Under such a program, he indicates, workers would obtain special bonuses during prosperous times, which they would not get during recessions.

Such a program for giving workers a profit-sharing arrangement, in publicly-owned companies, at the expense of the risk-taking stockholders would be extremely hard to justify. Such incentives may be warranted for executives, who make unusual contributions to a business, or to key technical workers. But to extend profit-sharing or other types of incentives to floor sweepers, or routine mass production employees who merely meet the standards set for their jobs would establish a dangerous precedent for all industry. Under such conditions, the stockholder could indeed become the "forgotten man." The reserves that manufacturers should accumulate in good times would be dissipated.

Some privately-owned companies, it is true, have granted profit-sharing programs voluntarily to non-union workers.

In the Kaiser settlement, the union may have achieved a position where it has declared itself "in" as a partner with the stockholders—*if Mr. Kaiser goes through with the contemplated concession. The evidence indicates that this was the union's secret objective all along. Perhaps this was the "billion dollar" package which David J. McDonald, president of the union, proclaimed it would achieve, in advertisements paid for long before the strike began.*

A Look-at-the-Books

● And that is not all. The long-range Kaiser committee which is to study a formula — possibly profit-sharing — *for avoiding future strikes,* opens up vistas for the union which it has long yearned for. Back into the picture comes the union's right to a *"look at the books"; the right to question management's accounting practices, management's decisions over advertising, new capital investments, dividends, depreciation allowances, etc.*

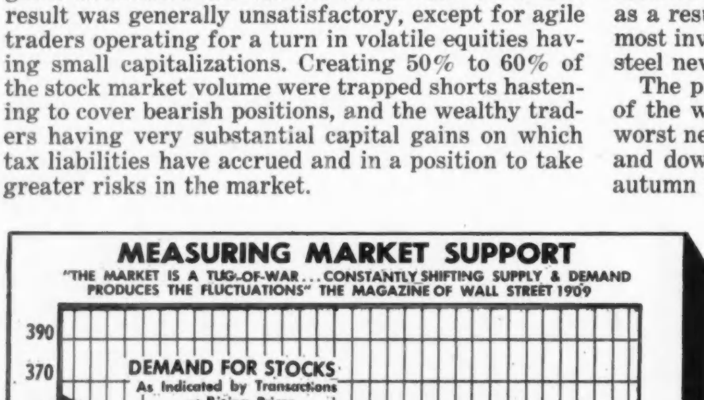
Take depreciation charges, for example. If the union, as a result of *(Please turn to page 266)*

Market Tests Ahead

Stock prices are currently on the soft side as investors weigh continuing uncertainties centering largely on the labor front. Irregularities and an easing trend may well persist for some time, accentuated by tax selling from speculative sources where a substantial profits cushion exists, and by the greater willingness of large holders of equities to take profits, as evidenced by the huge secondary offerings. The wisdom of a waiting attitude is apparent.

by A. T. Miller

WHILE conflicting economic forces were dictating a cautious policy for conservative investors, speculative elements intent on realizing capital gains dominated the market scene last week. The result was generally unsatisfactory, except for agile traders operating for a turn in volatile equities having small capitalizations. Creating 50% to 60% of the stock market volume were trapped shorts hastening to cover bearish positions, and the wealthy traders having very substantial capital gains on which tax liabilities have accrued and in a position to take greater risks in the market.



Only a momentary flurry of buying came into the market on the reopening of the steel mills under the 80-day injunction, and nearly all the mark-up seen in the opening session was promptly nullified as a result of profit taking and the unwillingness of most investors and traders to reach for stocks on the steel news.

The price movement was downward over the rest of the week, taking the industrial average down at worst nearly 19 points from Monday's intraday high and down over 9 points, at closing levels, from the autumn recovery high of 650.92 recorded November 6 and duplicated November 9. Thus, the prior week's gain was more than cancelled, with the average off nearly 5 points on the fortnight.

It remains roughly 25 points (about 4%) above the September low point of the sell-off from the summer bull-market peak; but has given up most of the gain scored in over six weeks following the initial September 23-29 rebound of about 24 points.

Decline In Rails Extended

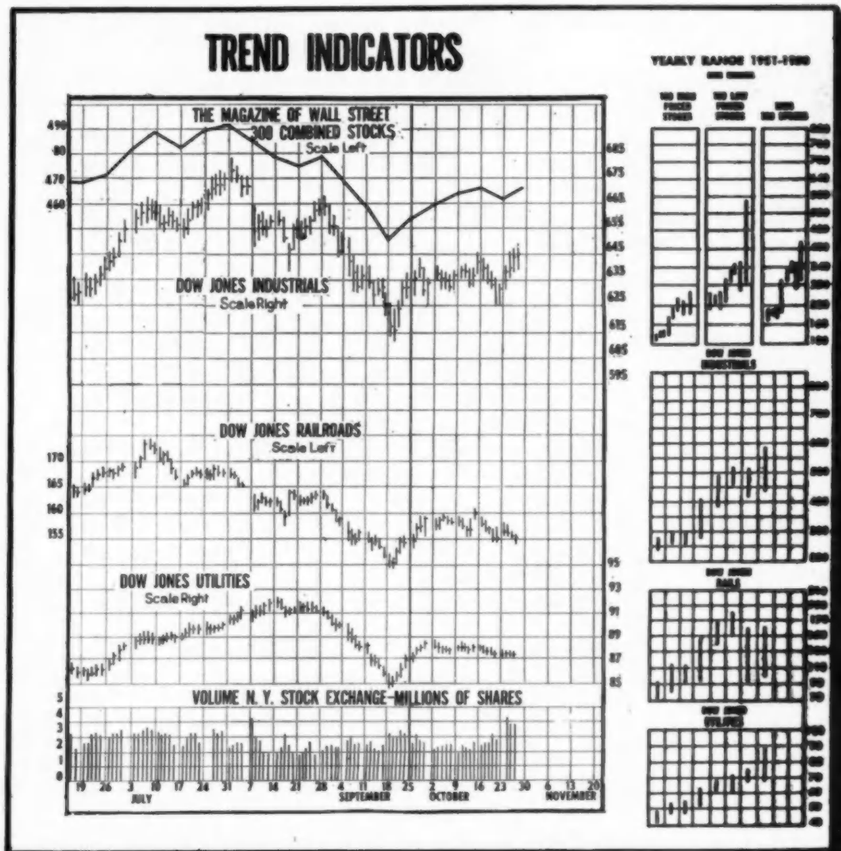
Rails have trended downward with few pauses from an autumn recovery high attained in mid-October, reflecting heavy damage to earnings inflicted by the steel strike and investment-speculative apprehension over the railroad's own momentous labor conflict, now in its preliminary stages. In falling a fraction under its September 22 low, the rail average is now at a new 1959 low, with further tax selling in prospect over nearby weeks. Utilities remain in their recent narrow range, but much closer to the September low than the bull-market top of last March.

The principal technical indicators, including our Market Support measures charted herewith, give current "readings" ranging from indecisive to cautious. Among them, relative rail action, as cited above, is definitely unfavorable. In each of the last two weeks more stocks lost ground than gained; and

new lows for the year were close to double the number of new highs.

When the industrial average will test either the August high or the September low is conjectural, and could hinge on labor news developments. There will be a number of them to watch. The domestic copper strike continues. The injunction that halted the East-Coast dock strike runs out soon. The steel injunction expires January 26. The railroads' wage and featherbedding dispute will variously simmer and boil through at least most of the winter.

Steel output is rising more rapidly than had been expected, reaching about 46% of capacity in the first week of resumption and likely to reach 60% or more in the second week, begun November 16. It could be at or close to capacity before mid-December.



Yet it is significant that the market has eased in the face of this better-than-expected news, and that steel stocks are among the poorest in current group performance. The reasons are clear. Investors are more concerned with a steel settlement and the terms thereof; with the possibility of a renewed strike by late January; and, in the latter event, with what the President and Congress might do about it. Keep in mind that any "public solution", via political pressure or any kind of arbitration, probably would be more favorable to the steel workers than to the companies.

The upturn in industrial activity has already begun to show up in some weekly indicators. For November as a whole, the Reserve Board production index should show little variation either way from around 145 estimated for October, compared with last June's peak of 155. The year is bound to end with strong December gains in industrial output, personal income and retail trade.

If the steel strike is not resumed—and if there is no rail strike or only a brief one—industrial activity will reach a new peak for the 1960 first quarter, followed by a more moderate second-quarter gain. That would mean an excellent first half, with second-half potentials less assured. Obviously, this "schedule" could be altered. Added or new strike losses in steel, or on the docks or railroads, would subtract from medium-term potentials and add to those of later months.

On an optimum assumption for the 1960 first half, probably we will be moderately further ahead in business activity than we would have been without the steel strike. Market response could well be moderate, as it was moderate in reaction to the strike. Without the strike-caused forward buying, the production index would not have reached 155 in June. It might have reached 160 by the year end and perhaps something like 163 for the 1960 first half, instead of a now conceivable 166-168.

Earnings on the Dow industrial average reached a record annual rate around $44 a share in the second quarter, falling sharply in the third quarter. They may be nearer $37 a share for the full year; and might have been $40-$41 without the strike. Under higher costs, the peak second-quarter rate will not be easy to equal or exceed. The present market level is slightly under the second quarter's best.

Serious Decline Unlikely

Long extension of the boom in a tight-money situation cannot be expected; but the next recession is not in sight, and everything in our postwar record justifies investment asumption that it would be limited anyway. No basis for serious market decline is now apparent. But because so many stocks are amply priced, basis for dynamic rise ahead is also not demonstrable. A moderate market range for the rest of this business cycle—maybe 10%-15%—would not be without precedent.

Despite the steel strike, *(Please turn to page 267)*

EXPLODING POPULATION A LOCAL PROBLEM

— But a Threat to World Peace

By ALLEN T. WARD

- **Where increasing population is an economic asset for various countries — dire peril for others**
- **Country-by-country check of existing and prospective population problems — avenues of expansion into other lands**
- **Where increased population means growing markets — where a declining standard of living is indicated**
- **Steps being taken by the various countries to solve population problems . . . finding new and untapped sources of food supply — trend toward industrialization — avenues for synthetics, etc. —to adequately meet current and future needs**
- **The position of the United States and other "have" countries in relation to "have nots" — and the solution**

THE world's population is expanding at an unprecedented rate, creating a combination of blessings and problems that may well determine the economic and political climate of the United States, and the rest of the world for the balance of the Twentieth Century.

While it took about 500,000 years for the world's population to reach its current level of 2.5 billion, *it will take less than 50 years to increase it by another 2.5 billion!* No wonder the word "explosive" is the most commonly used term found in the current literature on population.

A few brief statistics tell the tale in the most striking terms. *Between 1925 and 1950 the growth rate of the world's population was 31 per cent; from 1950 through 1957 the rate was 53 per cent; and in the last quarter century the rate will accelerate to 64 per cent. At this pace, the population of the world will double in 34 years!*

In some areas, such as the United States, there

will be ample room for rapidly growing population. The need for elbow room will speed the day when, through development of water power, the sparsely occupied arid wastes of the Southwest will be transformed into garden spots for happy living. (Israel has already taken the lead in this type of reclamation work, and with great success).

Australia and large sections of Africa too, have room for expanding populations, but here there are problems of climate, disease-breeding insects, wild creatures and fast growing tropical jungles, that will make the task a difficult and costly one.

For other parts of the earth, however, rising populations may well spell starvation, pestilence; with threat of war to the rest of the world, as one burgeoning nation after another is forced by the pressure of a teeming humanity to struggle for *lebensraum*.

The urge for self-preservation is already on the march in Asia, where Russia is expanding eastward in an attempt to stop Red China's march northward, with each embarked on a course that may ultimately end in a head-on collision. For, Red China is already challenging Russia's sphere of influence in Outer Mongolia as she pursues her way into the more sparsely settled areas of the north.

While Red China's quest to the north is understandable, her penetration to the south, where she is violating India's borders and pushing her way into a land where the birth rate is already at an unwieldy level, is rather puzzling — except for the fact that, located in the disputed mountainous region lie the head waters of the Indus River, the strategic route of the ancient conquerors. Is India, therefore, merely a stepping stone to greater adventure in the urge for more space?

Red China's population is now about 650 million and is expected to be 900 million by 1975, with some experts even mentioning a figure as high as one billion souls. At the same time, India's population, despite the positive steps being taken to check births, is expected to grow from 406 million to 563 million.

However, sensational population growth figures are not confined to Asia. In fact, the problem is of world-wide proportions and affects Europe, the Near East, Latin America, the Far East and the habitable areas in Africa.

Surprising as it may seem, Belgium, for example, has a population density at least equal to that of Japan, where 648 people are crammed onto each square mile and yet both are prospering. Other parts of Europe are almost equally crowded. Yet, the standard of living is rising, while in other lands people are existing barely above a subsistence level, despite the huge billions spent for rehabilitation — showing clearly that factors other than population density are involved.

It must be remembered that for such parts of the world the pressure of new populations will be pushing against economies of limited productivity, lacking the capital needed to provide jobs and develop industries, or even to exploit fully the natural resources that would enable the country to be self-sustaining. The element of growth necessary to solve the problem of feeding the people alone is an enormous task by itself.

The Road To Booming Population

After all, it was only a few years ago that some nations *were offering bonuses to families that produced children* "by the dozen." Now, if anything, the opposite policy looks more realistic. As far back as the 18th Century, Malthus put his finger on the basic problems, when he demonstrated "that populations must increase faster than the means of subsistence." His conclusions were undoubtedly based on the fact that man was physically and mentally lazy and would only go to work when obliged to do so by dire necessity.

Malthus was right in his reasoning, but how could he know that the technological progress would thereafter increase so rapidly that the means of subsistence would outstrip increases in the birth rate. Nor could he envisage the new impetus to population growth that came into being as a result of medical science, which in the last half century has virtually eradicated some of the most virulent diseases that formerly killed off a large percentage of the world's infants and children before they reached maturity — extended the life expectancy of young and old — and pushed the birth rate and population trend into a new high. (Maybe we will have to look to outer space after all.)

The Other Side of the Picture

Barring a global atomic war, which would certainly solve the population problem, the current trend, if left unchecked, would create havoc the world over, spreading the poverty and resulting in a lower standard of living for the "have" countries, with famine and starvation the unhappy fate of millions in the "have-not" countries that would rapidly decimate the populations.

It is unlikely, however, that the modern world will idly stand by and permit this to happen. Man created this monster — and man will have to come to grips with it. The action of the law of self-preservation will make it necessary to solve this gigantic problem in this modern age in which we are all closely bound as neighbors.

Some Solutions

Unfortunately, even the experts disagree on the proper solutions. One avenue is closed, however. We are not going to return to the period in which disease and starvation regularly carried off a large part of the world population. The alternative suggested in many quarters is birth control, a subject highly loaded with emotional connotations since it violates many of the world's leading moral and religious principles.

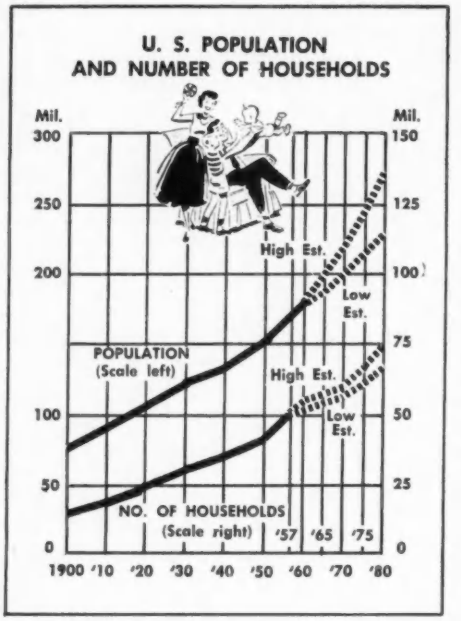
The Picture Presents a Challenge — But Not An Insurmountable One

The problem has to be resolved, however, within a framework of time. What is going to happen in the next twenty, or fifty years, not merely concerns us but is part of our responsibility. It is interesting but hardly profitable to speculate upon developments a century or more hence.

Although an unchecked population growth can

have uncomfortable, even dangerous, consequences, within the lifetime of most of us reading these pages, the outlook does have some redeeming factors. First of all, *our productive capacity, on top of its enormous expansion in the past century, is likely to continue to grow at an accelerated pace. In our own country, at least, some of our greatest problems concern surpluses — particularly of grains and fibers — rather than shortages.* Many of our forests are now harvested on a perpetual basis. Synthetics, new fertilizers, the discovery of hitherto unrecognized food sources in the oceans, all promise the physical means of caring for many millions of additional population.

Again, in a world sense, space itself is not yet a pressing problem. *Sparsely settled areas of reasonably hospitable climate can still be found in many spots on the globe;* the outstanding example is the continent of Australia where, in an area of nearly three million square miles — roughly the size of the United States — a mere ten million inhabitants reside. If means can be found to make the deserts, jungles and subarctic regions habitable, then population pressure will have a ready outlet for more than a century to come.



It must also be recognized that *the birth rate, irrespective of deliberate control, can undergo mysterious changes.* The sharp increase in the birth rate in the United States since 1940 was, in fact, entirely unexpected and contrary to the predictions of the population experts of the '30's. It is conceivable that as sudden a shift in the opposite direction might occur.

Population Problems Are Local—Not Universal

The problem to be faced with our lifetime is, accordingly, not yet an insufficiency of resources in terms of world population but a complex of local pressures, irruptions into nearby "vacuums", and tensions between states. To show the extreme variety in the present population picture let us glance briefly at various strategic areas of the world:

Australia: This sparsely populated nation is quite conscious of *the great temptation* — temporarily defeated in World War II — *that it represents as an outlet for the teeming hordes of Asia,* and in consequence it is working hard to build up its population with preferred immigrants. In order to do this more rapidly it has dropped its former "British only" policy but is still sticking rigidly to a "Whites only" policy.

Japan: Defeat in World War II closed the major escape hatch for this California-sized nation with a population well over half that of the United States. The country has, accordingly, been obliged to come to grips with the population problem in a franker way than any other important nation. Birth control has been vigorously preached and even abortion legalized. *The results have been a sharp drop in the birth rate and a visible decline in the infant population within the space of a few brief years.*

China: Red China's population policies remain largely a mystery to us, but the indications are that *this dictatorship will continue to foster maximum population growth as a deliberate tool for the overrunning and colonization of neighboring areas.*

India and Ceylon: These states are also finally recognizing the dangers of excessive population growth by setting up birth control clinics, but because of the vast areas and low standards of education, results are likely to be slow. *Accordingly, India presents one of the most alarming specters of overpopulation.*

Population Estimates For Leading Countries
(Thousands of persons)

	1955	1960	1965	1970	1975
AFRICA					
Egypt	23,000	26,000	29,500	33,500	38,300
Nigeria	31,300	34,000	36,800	39,600	42,300
Union of South Africa	13,700	15,200	17,000	19,200	21,900
NORTH AMERICA					
Canada	15,900	17,600	19,300	20,800	22,300
Mexico	29,700	34,200	39,600	45,900	53,300
United States	166,000	179,000	191,000	204,000	217,000
SOUTH AMERICA					
Argentina	19,300	21,300	23,200	25,200	27,200
Brazil	59,200	67,100	76,700	88,200	102,000
Colombia	12,700	14,300	16,200	18,600	21,600
ASIA					
China	600,000	654,000	720,000	799,000	894,000
India	386,000	417,000	456,000	504,000	563,000
Indonesia	81,900	89,300	98,300	109,000	122,000
Japan	89,100	95,100	102,000	109,000	116,000
Pakistan	83,200	92,200	102,000	114,000	128,000
EUROPE					
France	43,300	44,500	45,900	47,400	49,100
Italy	48,000	49,500	51,300	53,500	56,100
Germany (a)	71,000	73,000	75,200	77,700	80,500
United Kingdom	51,000	51,600	52,400	53,700	55,500
U.S.S.R.	197,000	215,000	234,000	254,000	275,000
WORLD TOTAL	2,690,000	2,910,000	3,180,000	3,480,000	3,830,000

Estimates by the United Nations — medium assumptions.
(a)—East and West Germany combined.

Southeast Asia: For some reasons not entirely clear, *the small countries of Burma, Siam, Laos and Cambodia are underpopulated, at least by Asiatic standards. Geographical proximity confronts them with the active threat of ethnic invasion from either India or China.*

Egypt: On an overall basis this Near Eastern state has only a moderate population density of about 60 persons per square mile; comparable with Iowa. But since for practical purposes only the valley of the Nile, about 20,000 square miles, is habitable, the population pressures are extreme. The same situation is characteristic of other Arab states. *Only some scheme for the large-scale colonization of the deserts, not practicable in the visible future, will avert explosive solutions here.* Indeed, the current troubles in the Near East are at least partly due to excessive population.

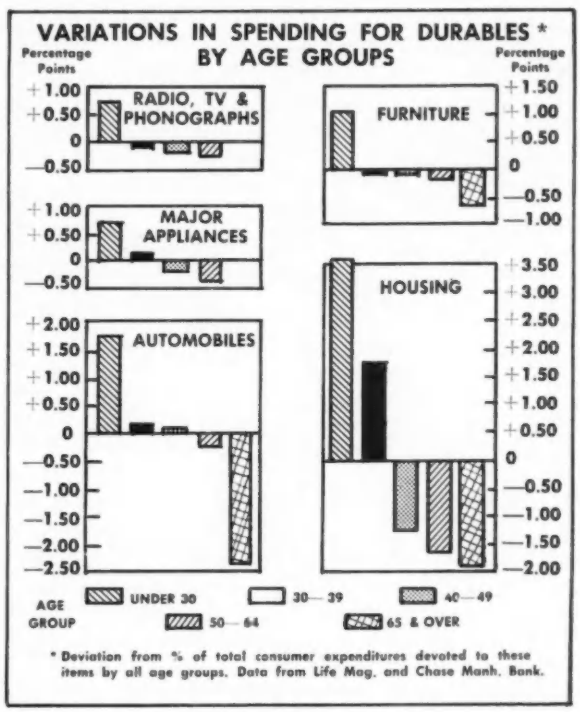
East Africa: Various colonies in this area are quite suitable for European settlement, but rising nationalism is threatening the former White supremacy. The area could provide an outlet for swelling Asiatic populations if their entry were encouraged.

Western Europe: Population densities comparable in some areas with those of Asia have been controlled by emigration and industrialization.

South America: Population is very unevenly distributed but conquest of jungle areas would solve the problem for decades to come.

This review makes it clear that there is, in reality, no single comprehensive population problem but rather a series of localized problems.

Their characteristics and the means of solving them differ widely from country to country. In this connection two questions confront us here in the United States: first, how are we going to solve our own population problem; secondly, what responsibility should we take for assisting other countries with more dangerous population overloads.



The chart above is based on U. S. data.

The Population Outlook for the U.S.

► The first question can be disposed of quickly. Except in strictly localized areas we do not have a population problem as yet and are not likely to face one within the intermediate future. Our population density of 58 per square mile — or about 48 if Alaska is brought into the picture — is still insignificant contrasted with Japan's 650, Italy's 408, India's 320, or even Ireland's 110. True, we do have many vexations brought on by the growth or mobility of population: highway congestion, shortages of schools and utilities, air and water pollution and the like. It is also often unpleasant to see woodland areas where we played only a few years ago turned almost overnight into housing developments or factory sites. But these are not population problems in the true sense.

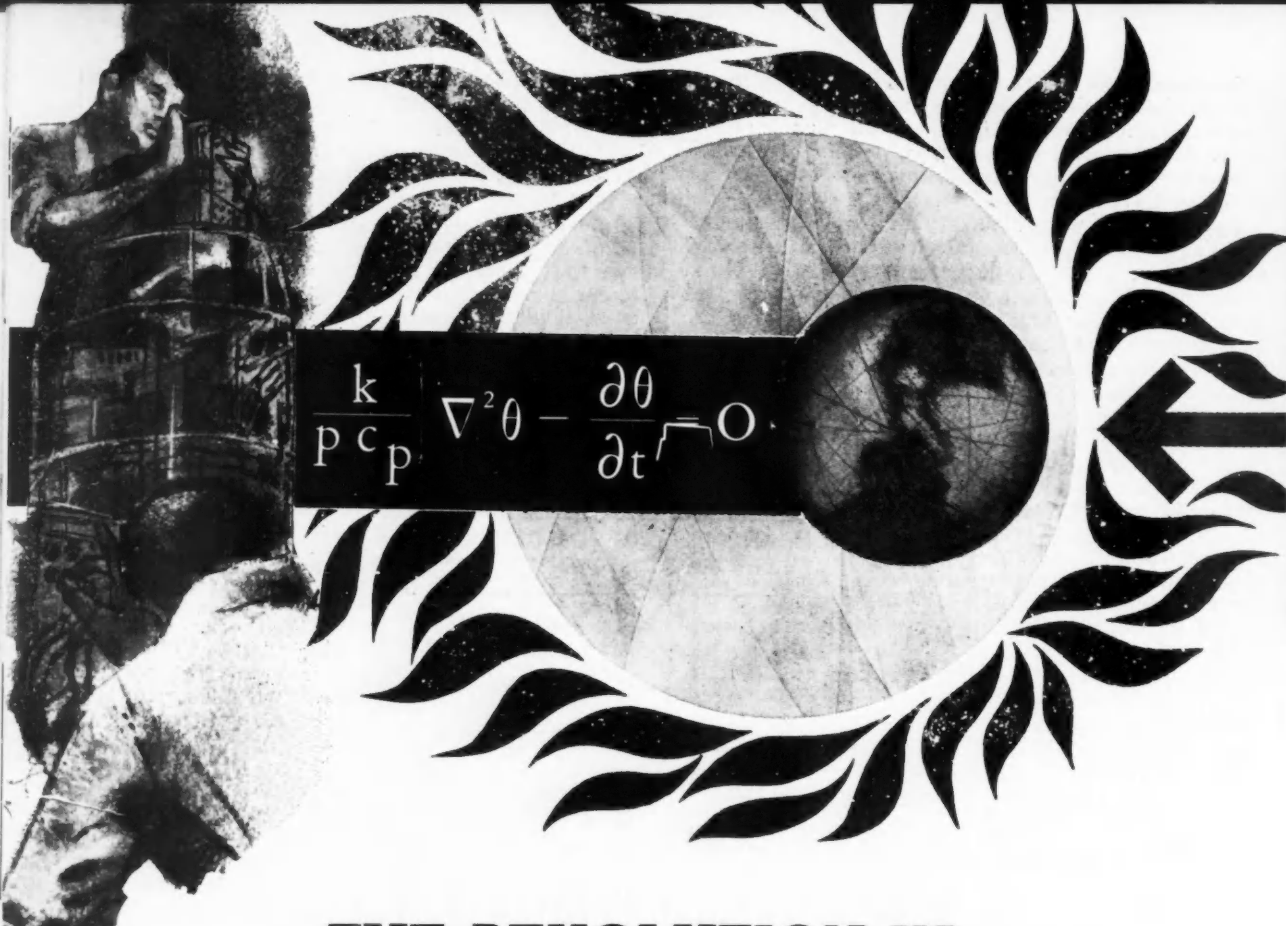
As a matter of fact, our growing population should be an economic asset. It is neutral in the sense that it creates new markets in approximately the same ratio that it adds to productive capacity, but as it allows greater specialization of labor and justifies manufacture on a larger scale it brings positive benefits. It is somewhat superficial, however, to speak sweepingly of the expected overall increase in our population. Significant differences will occur among various age groups. These are too complex to discuss in the present article, but deserve careful analysis by businessmen. The chart on this page shows some of these spending variations.

Overpopulation Primarily an Asian Problem

When it comes to consideration of the population pressures in other countries, some unpalatable facts must be faced frankly. While any suggestion of racism is almost tabu, it must be admitted bluntly that the problem is essentially an *Asian* one. *Africa*, overpopulated in some areas, still possesses vast expanses of underdeveloped territory. New inhabitants can be directed into such areas, although admitedly this will be at the cost of tribal conflicts and the discomfiture of European colonists. *Australia* is *definitely underpopulated* and *South America* is still welcoming immigrants. In *Europe*, overpopulation has been chronic for decades, but the settlement of the New World has provided a handy safety valve. Rapid industrialization has also eased pressures that seemed dangerous at the conclusion of World War II.

It is primarily in Asia, and particularly in China, India and Indonesia — that we encounter almost a dead end in the quest for solution of the population problem. The correctives mentioned above will operate only over the long run. Population pressures in the countries named are immediate and becoming more aggravated every year. The situation is bound to get worse before it gets better.

In theory, a simple answer to overpopulation in Asia would be the mass migration of these peoples to sparsely settled countries such as Australia, the Central African Federation, Brazil and Canada. In practice this process is out of the question, simply because the White nations would resist any tides of oriental immigration. *(Please turn to page 266)*



THE REVOLUTION IN NEW and BASIC FUELS and the COMPANIES INVOLVED

—Where commercial usage is near —and where it is still far off

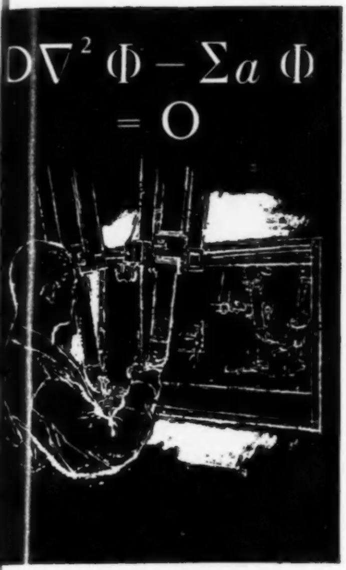
By OWEN ELY

THIS is a story of the fabulous mental resources of man that are being turned to find ways and means to care for the masses emerging into the light, and for the millions still unborn. Yet we seem barely to be moving fast enough to meet world demands for energy, increasing at an enormous rate, stimulated by mounting populations and the ambitions of "have not" nations to build needed industry quickly.

Because of the high costs of transporting coal, foreign countries are turning increasingly to oil, and other newly developed fuels. ►Texas companies are shipping frozen or liquified gas by a special ship to England and eventually such gas (although highly dangerous to handle) may be used in New England and some other areas, replacing gas formerly transported by piplines. ►Italy is now using volcanic steam to produce power, and Pacific Gas & Electric is building a new plant to do this. ►In the Orient, solar energy may soon be used to help the poverty-stricken masses cook their meals; in other countries high temperatures obtainable from concentrating the sun's rays may be used to heat homes, melt refractory metals, etc.

Backward nations in the Orient and Africa are now exploiting their extensive hydro resources. Huge dams are being built or planned in various parts of Africa and Asia and should aid the economic growth of these areas.

In the United States, however, the period of exploiting hydro resources is drawing to a close, the best sites having been developed. Congress has spent



$3 million to investigate the possibilities of reinstating the "Quoddy" project for harnessing the huge tides in the Bay of Fundy near the Canadian border; the preliminary report is that the project could be financed with 2½% money. But even Government money now costs 5%!

Hence, in the United States the problem of producing more energy is currently a contest between the three "fossil fuels"—and following are the changes in the annual consumption of these energy fuels (including energy derived from water power) in recent years:

	1946-50 Average	1958 Preliminary	Change
Coal	44%	24%	—45%
Oil	35	42	+20
Gas	17	30	+76
Water Power	5	4	—20
Total Energy	100%	100%	

Our Fuel Resources and Problems

The gain in U. S. electric output continues to exceed population growth by a ratio of two to three times. As a rule of thumb, the electric utility industry doubles every decade, though this rate of growth was considerably exceeded in the earlier postwar years. Due to the continuing increase in residential use of new appliances, the gradual gain in electric house heating, and the expanding industrial use of automation, there is little reason to doubt that the need for electricity will continue to grow at a rapid rate.

Thus the demand for fuels to operate steam generating plants will also continue to increase. But the steady rise in the field price of gas in recent years now threatens to swing some industrial users back to oil or coal. In fact the bituminous coal industry, which languished for a number of years, now foresees a bright future due to the increasing demands for electric generating plants; some of these plants are being built at or near the mine mouth to save freight costs. *Oil and gas remain in close competition in some areas for use as boiler fuel by industrial and utility companics, and slight changes in price will swing consumption from one to the other, with many boilers taking two or even three kinds of fuel.*

Federal Power Decisions and High Money Rates

Over the past two years, Gas producers have suffered from inept and dilatory regulation at Washington by the Federal Power Commission. The Commission recently issued an unfavorable decision in the *El Paso case,* and other key decisions are now said to be on the way. Better regulation could be provided by Congress, but the twice-vetoed bill to clear up the muddle can hardly be revived in the 1960 election year, so that the issue between producers and distributors will doubtless be resolved in 1961 or later.

But despite this handicap and the obstacle of high money rates, new pipeline projects, such as Midwestern Pipe Line and Southwestern Pipe Line are being financed and readied for construction. With drilling for gas and oil slowing down in the United States, we have turned to Canada. Midwestern Pipe Line will bring gas from Alberta to service Michigan, Wisconsin, Minnesota. El Paso Natural Gas is already bringing gas from the Peace River District to the Pacific Northwest. Pacific G. & E. is seeking permission to build another line in this area to supplement the dwindling supply of gas for California utilities.

Meeting Atomic Energy Problems

Meanwhile research continues in the atomic energy field, in the effort to produce an economical generating plant without sacrificing any needed safety precautions. The danger of radioactive fallout has been so widely advertised that the utilities have had to build massive domes, and provide other costly methods for protecting the countryside if one of the generators should get out of control. *This has increased construction costs (along with rising construction wages) and in most cases has substantially increased original cost estimates for atomic power plants. This in turn has raised the estimated cost of producing power and threatens to postpone the time when atomic energy will become fully competitive with "fossil fuels."*

Rivalry on Atomic Reactors

While there are a number of different, highly technical methods of constructing atomic reactors, the two most competitive designs are the pressurized water reactor sponsored and built by **Westinghouse Electric,** and the boiling water reactor developed and favored by **General Electric.** Several years ago, claims were made that the boiling-water plants would be competitive, but now this claim has been modified. A small competitive reactor built in California proved so successful that Pacific Gas & Electric is building a 50,000 kw plant along similar lines, in one of its outlying areas; it is said that this new plant will be competitive with the high fuel costs in this particular area.

The real test of the boiling-water reactor may soon develop at Dresden, Illinois where GE has completed a big (180,000 kw) atomic plant for Commonwealth Edison and an associated group of utilities. GE states that the plant is being completed ahead of schedule and (what is harder to believe) at something less than original cost estimates. The Dresden Plant "went critical" recently—science jargon for the beginning of experimental operation. Commercial operation will begin around next June, and by that time we may know more about operating costs.

High Cost of Atotmic Plants

Capital costs—usually taken at about 15% of cost of construction—are inevitably higher for atomic

power, since with their massive construction they cost perhaps two to three times as much as large fuel generating plants.

Westinghouse Electric's pressurized water type of reactor has generally seemed to be a high-cost producer. Certainly this was true of the only big plant now operating for commercial use, the Shippingport, Pa., plant built largely by the AEC and now being used by Duquesne Light. This initial plant was apparently built "like a watch" without much regard for expense, and the cost of power is many times more than that of adjacent coal-burning plants.

But doubtless Westinghouse has made considerable progress in reducing costs since it designed Shippingport (which was modeled somewhat after the successful submarine reactors). In any event Frank K. Pittman, Director of the Atomic Energy Commission's Reactor Development Division, recently told the Atomic Industrial Forum that of six potentially competitive reactor systems, the pressurized water reactor could "do it soonest and easiest." He indicated that it might take some $20 million for research and development to make this reactor competitive with conventional power systems in areas such as New England where fuel costs are high.

He also thought this could be done in the "near future" without building prototype reactors. He said that such a reactor in a large plant (300,000 kw) could produce power now at 9.28 mills per kwh; and by spending the additional $20 million the cost would be cut to a more competitive 7.81 mills.

Westinghouse Electric itself claims that a 330,000 kw plant could produce at 7.3 mills. The cost of the plant is reported at about $68 million, compared with the $100 million cost for Consolidated Edison's plant at Indian Point which would have smaller capacity. These figures seem a little difficult to explain unless some radically new methods have been developed.

On the other hand Mr. Pittman claimed that the GE boiling water reactor would also need $20 million more in research funds and would also require a $25 million prototype reactor before it could reach a competitive level; and this type of plant would require some five years or more to construct.

Much Still in Experimental Stage

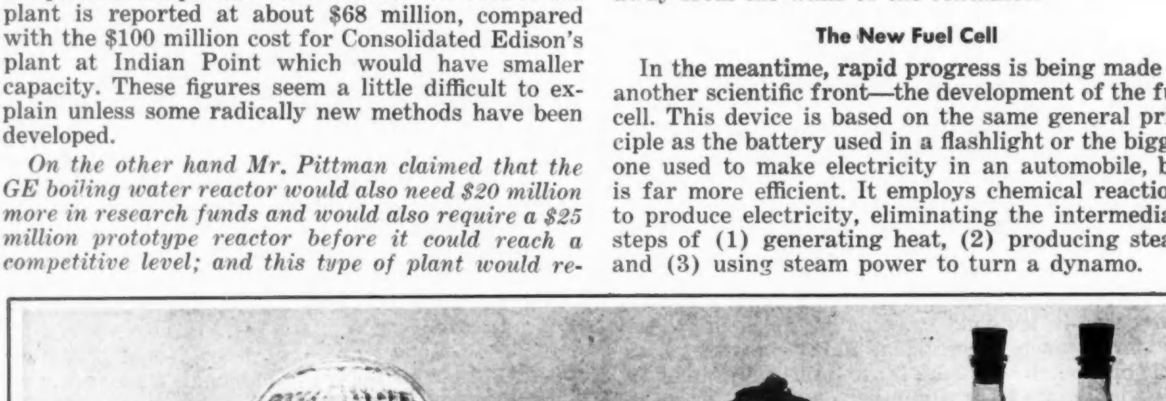
Other systems would need even more time and money to achieve competitive status. John A. McCone, Chairman of the AEC, apparently supported Pittman's views when he stated that the costs of nuclear power "now being indicated to us are sharply lower than those estimated as recently as one year ago." These conclusions seem rather encouraging—but were perhaps designed to lift the spirits of manufacturers of atomic reactors, who have been reported discouraged by the drab outlook for their product.

Progress is being reported with research to develop *fusion* of light elements to produce power (the principle of the hydrogen bomb and the heat of sun and stars, as contrasted with *fission*, currently used for atomic power). The technical problems for controlling and handling the enormous energies of the hydrogen atom have seemed almost insuperable, although research laboratories here and abroad have already produced temperatures of five million degrees or more for a fraction of a second—*about 100 million degrees seems necessary to trigger the fusion process.*

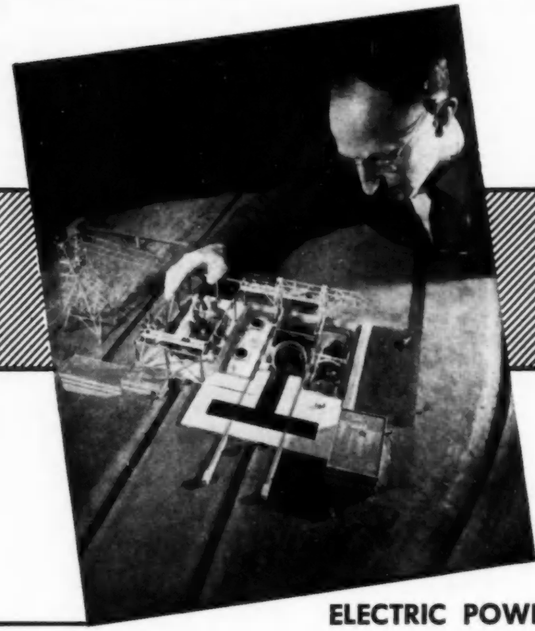
Recently scientists at the Los Alamos Laboratory have developed two new devices which represent considerable progress: (a) a magnetic gun which will force a beam of heavy hydrogen particles into a magnetic field in the container, and (b) a new shape for the container (called a magnetic bottle) which will help keep the gas or plasma under better control and away from the walls of the container.

The New Fuel Cell

In the meantime, rapid progress is being made on another scientific front—the development of the fuel cell. This device is based on the same general principle as the battery used in a flashlight or the bigger one used to make electricity in an automobile, but is far more efficient. It employs chemical reactions to produce electricity, eliminating the intermediate steps of (1) generating heat, (2) producing steam and (3) using steam power to turn a dynamo.



LABORATORY MODEL of a simple fuel cell reacts hydrogen with the oxygen in air. Hydrogen is generated in jar at right by dropping water onto calcium hydride. The gas then flows through carbon tubes in a block of Lucite, where it reacts with an electrolyte. The electrolyte in turn reacts with the oxygen that diffuses into other carbon tubes. The power output of the cell is three watts.



ELECTRIC POWER FROM THE ATOM

Picture on left shows a scale model of a large, atomic-powered, electric generating plant.

Picture at right is a model of a thermal reactor for a Belgian atomic power plant.

Potential efficiency of the fuel cell is estimated to range between 45% and 75% (because there is no wastage of heat and virtually no moving parts) compared with a maximum of 40% for steam generating plants, gas turbines, etc.

To take advantage of this potential, however, it is necessary to speed up the reactions in the cell, so that it will produce some ten or fifteen times as much power in relation to weight as ordinary storage batteries now produce. Ways and means of doing this are now fast being developed. Francis T. Bacon of the University of Cambridge in England has developed a fuel cell which produces six times as much power as the ordinary low temperature battery. **General Electric, Universal Winding** and **Lockheed Aircraft** are interested in the British cell and are working to develop it.

Meanwhile **Allis Chalmers** has harnessed over 1,000 small fuel cells together to power a full-sized tractor. Propane is brought into the cells by a system of tubes, where it causes an electro-chemical reaction producing direct current of electricity to operate the tractor. *In a few years this new fuel cell may be running cars and trucks and powering airplanes and ships. It may also become useful later on in power plants, although the cell must operate at very high temperatures for this purpose, involving new research problems.*

Claims For the Fuel Cell

The fuel cell may however prove valuable (even now) for *storage* of power in big generating plants. It might also be of value in the development of solar power, raising the present efficiency of solar batteries or solar boilers from 10% to around 25%. Fuel cells might also be used in atomic power plants to store electricity during the night (or other periods of low demand). The atomic reactor could produce the power to separate water into hydrogen and oxygen, and later these elements could be combined in the fuel cells to produce electricity.

Recent advances in fuel cell research have been expedited by discoveries in "solid state physics" and the development of new catalysts (chemical triggers). These have helped to break down the old limitations of standard batteries in developing adequate power. Many companies are now working on various types of fuel cells and are concentrating on the best fuel to be used, and the best methods of putting materials together. While the fuel cell has certain disadvantages, on the other hand it promises much greater efficiency, minimum maintenance, simplicity of design, elimination of smoke and noise, etc.

Companies Involved

The hydrogen-oxygen fuel cell is being pushed by General Electric, National Carbon, Universal Winding, Electric Storage Battery, Allis-Chalmers, Chrysler, and the Army Signal Corps. Similar work is under way in Germany, Britain and Russia. Curtiss-Wright, Lockheed Aircraft and Consolidation Coal are working on other types. Mine Safety Appliance Research Corp. is working on a regenerative fuel cell but this requires very high temperatures (which might be obtained through solar power). Other companies in the field are National Carbon, Aero-Jet-General, RCA, Dow Chemical, Westinghouse, Ford, and Standard Oil (N. J.). END

DISCRIMINATION... The essential in making investments abroad

—Companies that are highly successful —those that are not —and why

- **Problems of a world in transition . . . the end of colonialism —regimes of revolutionary leaders—where risks are great**
- **Dynamic Europe after 10 years of industrial transformation . . . sales to populations with higher living standards vs. low income masses**
- **Various plans for operating in foreign countries . . . companies minimizing risks through employment of nationals . . . higher profit margins—and expanding export markets**
- **U. S. companies now deriving substantial portion of income and profits from foreign operations**
- **Countries where greatest security exists for American enterprise —where adventure is the keynote**

By ROBERT B. SHAW

WHEN you pick up your newspaper and read: "Cuba seizes sugar plantations . . . Venezuela slaps retroactive tax on oil company earnings . . . Brazil again devalues the Cruzeiro — grabs the meat packing plants — then gives them back again . . . Indonesian civil war flares up near oil wells," you realize at once the impact that these destructive forces are certain to have on the well-being of the individual countries.

Such reports might well discourage both companies and individual investors pondering foreign commitments were it not for other significant headlines that proclaim: Colgate's foreign sales approach half of total . . . Chrysler buys 25% interest in Simca . . . Dresser opens new factory in France — clearly indicating that in making foreign investments like in everything else — discrimination is of the essence! These particular instances show a leaning toward the newly rich European countries, which is based on the evident belief that the calculated risk involved is justified in lands where individual income is high, and where rising and expanding purchasing power potentials exist.

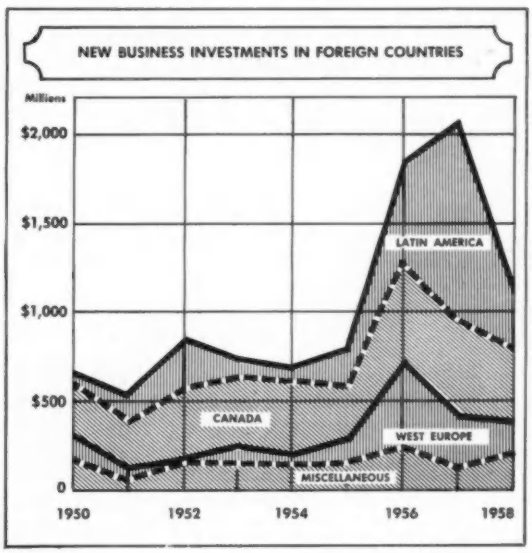
The simple fact is that the success reported by major companies, and a strong sense of adventure, is stimulating the interest of American businessmen in a way that is increasing U. S. investment abroad by leaps and bounds, this year, after a set-back in recession-restricted 1958. In once remote foreign lands the American businessman is becoming a more familiar figure than the American missionary.

Exports last year, although down sharply from the 1957 peak, exceeded twenty-two billion dollars. But this is far from the full measure of domestic participation in foreign trade, for an increasing number of companies are establishing their own affiliates or subsidiaries abroad, frequently even consolidating their operating results in their own financial state-

ments. It would be risky to hazard a guess as to the proportion of domestic corporate income derived from foreign sources, but this could well approximate 7% or 8%. More significantly, a number of the most rapidly growing companies derive a very much larger proportion of their earnings from foreign operations.

Why are so many American Companies expanding their international operations? What are the risks involved? What are the best methods for penetration of foreign markets?

To be sure, American investment abroad, even on a large scale, is not new. But in the past, emphasis was upon raw material sources: crude oil, ores, rubber, animal and vegetable fibers, tropical produce. The control of such supplies was often a matter of necessity, not of choice. Today, the major effort is to win markets abroad. In the present article we will pass over the companies whose foreign activities are aimed primarily at raw material supply and concentrate upon those which visualize the foreign field in terms of sales opportunities.



For anyone who reads the newspapers carefully, an explanation of some of the conditions that are creating better markets for American products abroad may be superfluous. Nevertheless, it should be useful to review some of the more important developments briefly. First of all is the rapidly rising population in most countries, a story fully covered in the leading feature in this issue. Zooming population trend will create difficult long-range problems, but in its most immediate effect is building important new markets.

Richest Market is in Europe

Population growth is not, of course, identical with a rising standard of living; it may even have a contrary effect. Nevertheless, the per capita standard of living is improving in most countries, slowly in Asia and South America, a little more rapidly in Africa, and at an accelerated pace in Japan and western Europe. In the latter area the changes within a few brief years are clearly visible to the many American visitors. The Italian or Frenchman who was formerly content to have a bicycle can now aspire to ownership of an automobile, while appliances like refrigerators, long familiar in this country, are beginning to approach a mass market in Europe. Population growth alone does create wider markets, and when this is accompanied by an improvement in living standards the resultant sales opportunities are substantial. In these areas the market for consumer products is very much further, indeed, from the saturation point than at home.

For some types of products, particularly those based upon research or intricate manufacturing processes, competition will be considerably less intense in many foreign countries than in the domestic market. This, however, is a picture that can change rapidly, either as other international companies or new local ventures are attracted to the same market.

Americans Benefit From End of Colonialism and other Limitations

In many cases American companies have been assisted in their entry into foreign markets by the removal of former artificial barriers. The trade of the ex-colonial countries was normally dominated by their ruling states in Europe, particularly England, France and the Netherlands. The loosening of the colonial bonds has likewise broken the tariff preferences and other privileges which kept the markets of those countries "off limits" to American manufactures. The ghost of imperialism can even act as a positive aid to American salesmen, for some newly independent countries prefer to break away entirely from the trade relationships in which they were formerly enmeshed.

Another advantage comes from the breakdown of internal tariffs and the creation of wider trade territories, such as the European Common Market. Small countries, like Belgium, have simply been unable to justify the establishment of large factories and sales organizations. The broadening of all of western Europe into a single market, provides wide scope for mass production and the more economic location of industry. This program was initiated in Europe, of course, to benefit their own industries, but its effects are not selective.

Many foreign countries still offer lower income tax rates than the United States. Even abrupt increases in local tax rates, as long as they do not exceed the 52% levy prevailing here, are no handicap, as the foreign tax is an offset against the domestic tax. In limited instances, as for "Western Hemisphere Corporations," American businesses operating abroad also get a tax break under our domestic law, and additional advantages are being proposed periodically, as part of the device to substitute trade for aid.

The Magnet of Lower Labor and Material Costs

Most important to those companies that establish their own manufacturing plants abroad are the lower labor and material costs. Foreign governments welcome this form of expansion, as it contributes to local employment and greatly reduces the drain on valuable foreign exchange reserves. All of the production costs of the local plants remain in the countries where they are domiciled except the profit element, and even much of this may be reinvested. Of course, the shifting of American manufacture into foreign plants can have an adverse effect upon our own economy — but that is a different story.

Companies like Dresser Manufacturing and Burroughs now not merely manufacture for local markets in their European plants, but are increasingly shifting orders originating in many parts of the world to those same plants. This will bring at least some profit back to their stockholders in this country, whereas the business would probably have been lost entirely if they could not have handled it elsewhere than in their high-cost domestic plants.

These advantages, briefly summarized, add up to a considerably wider typical profit margin in the foreign field than in the United States. The average annual return on American companies' net investments abroad approximates 16%, a rate about 50% higher than on domestic properties. This generalized figure can be emphasized by a few specific examples.

►In 1958 **Colgate-Palmolive** reported $271 million of domestic and $263 million of foreign sales. However, net income of $7,180,000 from domestic operations was exceeded by $8,131,000 of dividends received from foreign subsidiaries, beyond which those subsidiaries added $5,855,000 to their surplus. These sales and earnings originated respectively from domestic plant, equipment and net current assets of $162 million vs. only $90 million similar assets located abroad.

National Cash Register, which likewise neatly distinguishes between foreign and domestic results, reported foreign sales of $152 million — 39% of its total — in 1958, on which it earned $7,753,000. By contract, the company earned only $8,831,000 on its $242 millions of domestic sales. ►**Sears Roebuck,** which has extended its operations into Latin America in recent years, received in 1958 from its unconsolidated subsidiaries in Cuba, Mexico, Venezuela and Brazil, despite exchange difficulties in the latter country, dividends amounting to 7.5% of the sales volume for the same subsidiaries, considerably better than its overall profit margin of 4.25% on its domestic operations.

Additional Major American Companies Which Derive Income From Abroad *

	% of Sales From Foreign Sources
PFIZER	38%
DRESSER INDUSTRIES	30%
CHICAGO PNEUMATIC TOOL	20%
AMERICAN HOME PRODUCTS	18%
UNION CARBIDE	18%
AMERICAN CYANAMID	15%
ALLIS CHALMERS	10%
WESTINGHOUSE ELECTRIC	8%
GENERAL ELECTRIC	6%

Data not comparable for all companies as some include, some exclude Canada as "foreign" market.
* Companies which are not listed in the main table.

The Other Side of the Picture

But up to this point we have told only half the story. It must be admitted plainly that foreign operation entails additional risks not encountered at home. As bad news always travels more rapidly than good, it will not be necessary to enlarge upon these. The confiscations of plantations in Cuba, the arbitrary reduction of utility rates there and in Brazil, the artificially manipulated exchange rates in various countries, the burdening of management with redundant labor, the riots and civil wars, all speak for themselves. Even some countries which are friendly to American investment nevertheless suffer a severe dollar shortage which compels them to place rigid restrictions upon imports. And even where disorder is unusual and government stable, a widespread tendency persists towards the gradual socialization of industry.

These risks cannot be disregarded. Whether the expected higher profit margins compensate for them is a question which management in the first instance, and then investors in such enterprises, must decide for themselves.

Nevertheless, it is an error to view the entire foreign field in a common light. Conditions vary widely from country to country. ► Western Europe, South Africa, Australia and Japan are secure and stable. Some of these areas are, to be sure, closer to "trouble spots" than we are, but distance by itself no longer gives much protection. ► The huge subcontinent of India also offers relatively favorable conditions, although the government undeniably leans to the left. ► Latin America tends toward instability, and caution in making commitments in this area would be only wise. ► Central Africa, just emerging into independence, remains a question mark, and only very high returns could justify large-scale investment there.

In This Revolutionary World

Certain types of investment, it should also be noted, are much more vulnerable to confiscation or damage than others. ● Mines, oil fields, extensive plantations, railroads, utilities are always readily visible targets for nationalistic outbursts, and are absolutely immovable. Once large amounts of money have been sunk in such properties the owners are at the mercy of the local governments. ● Industries which rely upon much larger proportions of working capital, or are based upon research, special skills or complex but light machinery, are in a much safer position. ● Examples are the retail chains, drug and chemical companies, and office equipment manufacturers. Where turnover of any company's assets is relatively rapid, both the risks to the investors and the temptation on the part of local governments are substantially reduced.

Minimizing Problems By Diverse Methods

Again, there are methods of operation in foreign markets that improve opportunities and local attitudes. The advantages of the establishment of manufacturing rather than merely of sales outlets have been mentioned. The joint venture, steadily becoming a more popular device (Magazine of Wall Street, August 15), helps to solve many problems of foreign operations and also usually clothes the enterprise in a native guise.

Case Histories

Several brief case studies of companies that have "gone international" on a large scale will illustrate both the problems and opportunities of this policy.

Pfizer as recently as 1950 had not a single product being produced outside of the United States.

Statistical Data On Companies With Large Foreign Interests

Company	Total Sales (*) 1958 (Mil.)	Foreign Sales 1958 (mil.)	Foreign Sales To Total Sales[7]	Foreign Net Income 1958[7] (Mil.)	Foreign Income Remitted To Parent U. S. Co. (Mil.)	Extend of Foreign Interests
CATERPILLAR TRACTOR	$585.1	$227.0	38%	N. A.	N. A.	World-Wide.
COLGATE-PALMOLIVE	534.0	262.7	49	$13.9	$8.1	Western Hemisphere & Continental Europe.
CORN PRODUCTS	649.9	179.0[1]	28	10.8	9.6	South America & Europe.
EASTMAN KODAK	828.8	231.1	28	18.4	9.2	World-Wide.
INTERNATIONAL BUSINESS MACHINES	1,417.4	245.7	18	34.0	8.0	World-Wide.
INTERNATIONAL HARVESTER	1,438.0	339.7[1]	23	19.0	13.6	World-Wide.
MERCK & CO.	206.6	56.0	27	5.5[2]	2.2	World-Wide.
MERGENTHALER LINOTYPE	47.5	20.4[3]	41	1.6	1.1	England, Germany and Italy.
NATIONAL CASH REGISTER	393.7	151.7	38	9.3[4]	8.3	World-Wide.
PROCTER & GAMBLE	1,368.5	270.0[7]	20[7]	17.0	N. A.	World-Wide.
SINGER MANUFACTURING CO.	433.0	257.0	59	N. A.	N. A.	World-Wide.
WOOLWORTH (F. W.) CO.	864.5[5]	N. A.	N. A.	N. A.	12.1[6]	World-Wide.

*—Includes some World-Wide totals and some domestic unconsolidated totals.
N.A.—Not available.
1—Does not include Canada.
2—Included in parent consol. income.
3—Includes other income.
4—Includes Canada.
5—Includes U.S., Canada, Cuba, Puerto Rico and Hawaii.
6—Includes British and German subsidiaries.
7—Estimated.

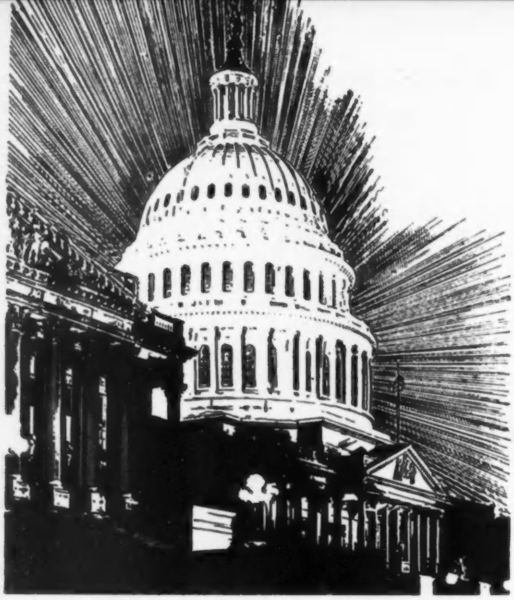
Total foreign sales amounted to only $12 million. Today, nine short years later, this leading drug organization manufactures its product in 19 countries and has 7,000 employees abroad. Foreign sales last year amounted to $85 million, or more than the company's total sales the year before it commenced this expansion. Pfizer has not hesitated to enter some countries of dubious political inclinations, but most of its manufacturing plants are located in more stable areas, with emphasis upon the European Common Market. Pfizer, incidentally, carefully avoids use of the word "foreign" — which may have a condescendending implication — in favor of "international."

In contrast with such a recent entrant into the foreign field as Pfizer, **Singer Manufacturing** is a veteran. This one hundred year old company built its first foreign plant in Scotland in 1867, and by the turn of the century had made its name familiar in every remote corner of the globe. As early as 1913 over a quarter of its machines were sold in a single foreign country — Russia — alone. As a matter of fact, its success in the foreign field, where sales have exceeded those at home in every post-war year except 1948 and 1950, apparently led Singer to neglect its domestic market. While the company is now making a vigorous attempt to modernize operations in its major Elizabethport, N. J., plant, an important part of the new management's prescription is to shift even more emphasis on to foreign operations.

Much of the production at the Bridgeport, Conn., plant will be shifted to Clydebank, Scotland, and Karlsruhe, Germany. The French factory dominates the market in that country, and is an excellent position to capitalize on the European Common Market. In other areas Singer is suffering intense competition from Japanese and Italian machines, but is counterattacking by opening assembly plants, or even full-fledged factories, in an increasing number of countries. Plants are being constructed or expanded in Mexico and Turkey, although plans for expansion of the present assembly operations in Pakistan and entry into India have been blocked by political difficulties. Singer has even invaded the enemy's camp by acquiring a 50% interest in the Pine Sewing Machine Co. of Japan, although it has so far been unable to obtain permission to remit its profits from that enterprise back to the parent company.

For the Investor

So, it must be recognized that foreign investment is going to increase both risks and headaches. Nevertheless, the opportunities are substantial, and would appear to justify the risks. *Certainly it is clear that the unusual success of many companies in the post-war era is largely due to expansion of their foreign operations.* Of course, risks must be selected and examined carefully, while protection against the unforseen developments that can always occur can be secured by that familiar investment imperative, *diversification.* This rule suggests that any company confining its operations to a single country or group of countries with common characteristics should be avoided, unless the price of its stock very substantially discounts the resultant risks. But informed participation in foreign investment looks like good business both for American corporations and for alert stockholders. END



Inside Washington

By "VERITAS"

LABOR will continue as Washington's major headache until Jan. 25, expiration of the 80-day cooling-off period in the steel strike. The President has indicated his grave concern; Labor Secretary James P. Mitchell has indicated impatience with both sides to the dispute, but seemingly directs most of his feelings against Labor itself. Capitol Hill friends of Labor are disturbed; fear that Congress will have to tackle the job next January, something to be side-stepped in an election year.

WASHINGTON SEES:

One segment of State Department is now definitely moved from the marble pile in Foggy Bottom to 1600 Pennsylvania Avenue. Major U.S. relations with our European allies, the Asiatic bloc, and Russia are now directed by Dwight D. Eisenhower, rather than by State Secretary Christian A. Herter. The President has lost no confidence in Herter, but has gained high regard for his own abilities as a diplomat.

The President is certain that he can do a better job, especially in his dealing with friends and enemies to the East. Herter continues as top man in negotiations with nations of the Western Hemisphere, will keep an eye on our good neighbors to the South.

Ike's cordial receptions in European Capitals, prior to Nikita Khrushchev's visit to this country, engendered the President's belief that face-to-face talks by the Heads of States, rather than by subordinates, are the effective way to solve grave international problems.

Khrushchev's subsequent visit to the United States, the Eisenhower-Khruhschev talks in the privacy of Camp Davis, added to the President's confidence in himself as a diplomat. The Berlin crisis faded, the cold war thawed slightly.

On his last visit to Europe, the President took State Secretary Herter along. Significantly, Mr. Herter is not included in the President's forthcoming Euro-Asiatic entourage.

ARBITRATION, compulsory and binding, of course, is the most talked of solution. Proponents say it is "the only way to handle work stoppages in vital industries." Opponents raise questions of Constitutionality, adding that if not contrary to the Constitution, it poses the threat of even more Socialism in a Democracy now "far down the Socialist road." It could, they assert, lead to Federal wage and price controls—even the despised ration book of World War II. It is unwanted by both labor and management. Fear of such legislation might bring about a contract before the Jan. 25 deadline, Administrative and Legislative branches of government believe.

FARM surpluses will be another problem for the Second Session of Congress to tackle. But the problem will not be solved. With a Frankenstein Monster to be dealt with, Congress is certain to sidestep the issue in deference to the still-powerful farm vote. Meanwhile, national farm organizations, including the Grange, National Council of Farmer Cooperatives, American Farm Bureau Federation and the left-wing National Farmers Union, are pushing for more overseas disposal of surpluses—even if we have to give them away, or accept sorely depreciated currencies in payment.

PRESIDENTIAL hopefuls are "a dime a dozen" according to Capitol City insiders. Formally announced candidates are few, but formal announcements are in the offing. At this moment, GOP Presidential prospects can be counted on two digits of either hand—Vice President Richard M. Nixon, and Governor Nelson A. Rockefeller. No less than seven—maybe eight—can be named in the Democratic camp. Despite public polls, seasoned observers here predict Rockefeller for the Republicans, Stevenson for the Democrats. "The Rock" will, as did Eisenhower in 1952 when he won the nod over Taft, be the "hero" to displace the poll-popular Nixon. Adlai, because of potential deadlocks among seven or more, may be the final Democratic choice. Some add that like the late William Jennings Bryan, he will be a three-time loser.

As We Go To Press

Cuba and expropriation of U. S. properties there now harries our State Department. Castro has moved in on several American owned properties—ranches, sugar cane plantations, mining developments. At the moment, the bearded dictator avoids the term "expropriation," mentions "agrarian reform," dashes to a television camera to damn the "imperialistic Yanquis," and then goes into seclusion for 24 to 48 hours. Unmindful of the fact that Cuba's economy is based on U. S. purchases of the island republic's sugar crop, Castro whips his followers into a frenzy of Anti-Americanism. So far, it works, and to the detriment of our financial investments in Cuba—now around $4 billion. Our own Central Intelligence Agency (CIA) is running far behind the mercurial Castro. We once intervened down there; maybe we will again. Question: Will intervention bring Russian intrusion? CIA doesn't know, nor do State Department and the White House. We had a not too profitable experience with Mexico when that Republic moved in to take over U. S. oil properties there. We did nothing militarily on that one; may do nothing as Castro expropriates. The difference: at that time Mexico was not 100% dependent upon us for the purchase of an entire national crop; Cuba sinks if we do not buy all of her sugar crop. Barring, of course, Red offers of aid, which cannot be ruled out.

Labor's Camp Is Divided — this time not a division between the moguls of labor. The division is between dues-paying, rank-and-filers and the labor moguls. Steel workers are out more than 100 days of pay; rail workers have suffered; the men who dig coal have been hurt; retailers serving them all have felt the pinch. Union membership begins to question leadership. The answer may hinge on a steel contract before January 25. In the background is the rail-management row over "featherbedding," also a problem in the newspaper industry, traveling under the name of "bogus" typesetting. Railroad featherbedding will be to the fore in Administration and Legislative consideration when Congress reassembles in January. It is now thoroughly documented that the make-work practice of rail unions is costing the rail carriers $500 million annually. Rails cannot carry the wasteful burden much longer. The Defense Department is gravely concerned — railroad breakdown would severely cripple troop and materiel movements should World War III come.

Featherbedding, has more than one side, according to the Industrial Union Department of the AFL-CIO. Management has been on the soft billowy couch too, say Walter Reuther and his IUD aides. They point to company-paid-for hunting lodges, yachts, vacation resorts, adding that these are only some of the "more blatant wastes chargeable to big business." Management is highly vulnerable to "loose talk" about featherbedding, Reuther, et al., conclude.

Housing Again To The Fore. Federal Housing Administration Commissioner Julian A. Zimmerman predicts the nation's housing inventory will more than double by the year 2000. He says that new home starts, including farm units, will reach an all-time high rate of around 2.5 million annually. He bases his prediction on an expanding economy, spurred by population growth and rising living standards. He then "hedges" with the explanation that he assumes there will be no nuclear war, that property values will increase without significant inflation. He also emphasized that his predictions were not official government predictions, "but my personal views." Meanwhile, the National Association of Real Estate Boards has come out in support of single-family homes for rental as opposed to apartment houses. According to NAREB, the relative ease of financing, management, and sale makes the ownership of single-family homes for rental purposes superior to apartment houses for investors. For too many years now, says NAREB, it has been commonly assumed that for owners-investors, the multi-unit rental property has enjoyed a competitive advantage over the one-family dwelling. All of this is now

reversed as family units seek "status," a place to rear the children, have a garden and other things to increase the value of a home.

Aluminum Stocks may be helped by the report that the U. S. Army's newest tank, the M-60, is "shot full of aluminum." The innovation has heightened cruising range as it lightened weight. The new battle vehicle uses about 3.5 tons of the white metal to replace double the amount of steel (an item of worry for the steel industry). The M-60 will use aluminum road wheels, support brackets, fenders and fender boxes, ammunition storage racks, fuel tanks. On top of these advantages, the new engine, made largely of aluminum, will increase cruising range around 35 percent and reduce fuel costs by almost a like percentage.

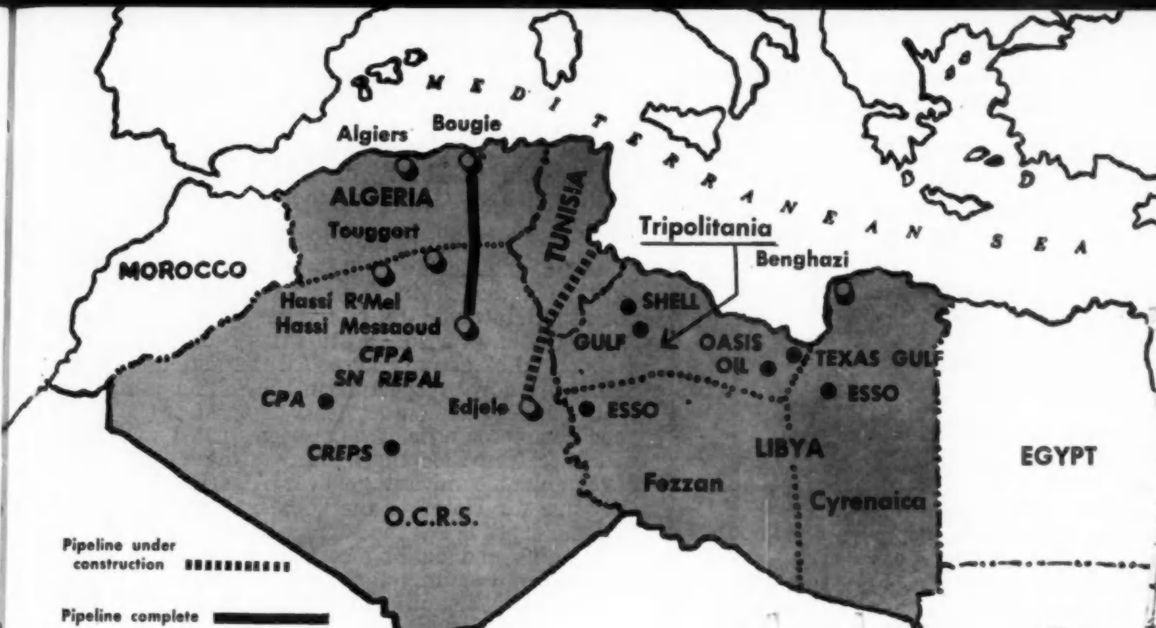
Doctor Shortage is fretting the U. S. Public Health Service, arm of the Department of Health, Education, and Welfare. HEW covers a multitude of educational sectors, and admits that the scarcity of Medics now—and later—is a pressing problem. It costs around four years of study and $12,000 of cash to become an engineer; 10 years of study and about $32,000 to become a practicing M.D. For no money outlay, two to three years of apprenticeship, a youngster can take up one of the trades to make more money than his degree holding contemporaries.

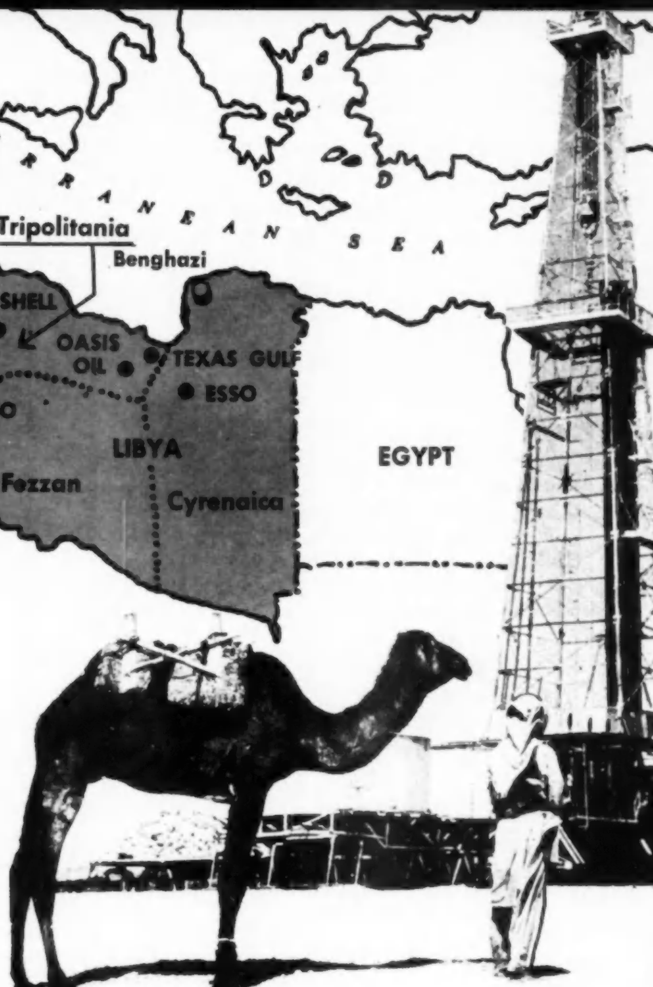
Right-to-Work law proponents, heretofore working only at State levels, think seriously of pressing for a national statute — even a constitutional amendment which would completely negate union shop provision of Taft-Hartley Act. As now written, Sec. 14 (b) of the law recognizes rights of States to nullify union shop contracts within their borders. Eighteen States now have RTW laws, which have been sustained by Supreme Court. Despite severe losses in six States during elections of last year, RTW supporters feel now may be the time to prepare for support of a National statute. Their encouragement stems mainly from support by rank-and-file union membership across the nation, many citing the costly steel strike as their reason. National Right to Work Committee, non-partisan organization, with Washington headquarters, reports small donations — $1.00 to $5.00 each — have totaled more than $75,000 since steel strike entered its 75th day. Sen. John L. McClellan (D., Ark), who was chairman of the Senate Rackets Committee, and had said he would not support a national RTW law, is believed to have reversed his position, while Sen. Barry H. Goldwater (R., Ariz.) plans to introduce RTW legislation early in next session of Congress.

Congressional probe of Internal Revenue Service's proposed ruling that advertising by electric utilities may be "political lobbying" where such advertising is in opposition to tax-exempt public power projects is now in the making. IRS has called for public comment, but has refused to make public those comments filed. The move has drawn fire from Rep. John E. Moss (D., Calif.), Chairman of House Special Government Information Subcommittee of Committee on Government Operations. Moss, irked by IRS's cover-up, describes himself as "ready, willing and able" to go further than a probe of secrecy — may demand Congressional airing of the whole advertising expense issue.

Atomic Energy as source of low-cost electric power is far in the future. Publicly, Atomic Energy Commission has set 2,000 as target year for abundant low-cost nuclear generated power; private AEC sources are not so optimisic — say that until control of hydrogn blast comes about we will have to place reliance on conventional sources — steam and hydro. Meanwhile, AEC plans accelerated financial aid to universities for research devoted exclusively to atomic-electric development.

Rigged Television Scandals have thrown Federal Trade Commission "into a dither". Never very active in monitoring television and radio advertising, FTC has more than doubled its monitoring staff. Will even monitor local programs, especially as Xmas advertising swings into full play. FTC denies Congressional exposures prompted the move; for some time — even before Capitol Hill hearings — there has been mounting public indignation. Delay is blamed on lack of personnel — difficult to believe in face of Civil Service Commission files, bulging with more than 200,000 applications for Federal employment. The Commission needed more than 13 years to successfully prosecute one "misleading advertising" complaint. This experience may have made FTC wary of incursions into air wave ads.





AFFECTS OF THE SAHARA-LIBYA FINDS

- On Oil Around the World

By JOHN E. METCALF

- **Strategic importance of North African oil development during past two years**
- **Exports of up to 100 million tons from Algerian Sahara and Libya by 1965 could change oil balance**
- **Bringing diminishing importance to Middle East supplies . . . by-passing Nasser's stranglehold on the Suez Canal**

THE pace of oil discovery in North Africa has quickened dramatically within the past year. Indeed, we are now witnessing the birth of a vast new oil province. If present prospects are borne out, the long neglected Sahara Desert may very soon rank as one of the major oil-producing areas of the world.

It was only 4 years ago that the French discovered oil in the Algerian Sahara. It lay deep within the desert, 400 miles south of the Mediterranean, in an area cursed by blinding sandstorms and searing 130° heat. Foreign oilmen were skeptical, but the French proceeded with grim determination to explore their find. They were driven to desperation by the ever-mounting cost of oil imports. To keep the French economy running, upward of 25 million tons of oil must be imported annually at a cost of some $300 million in hard earned foreign exchange.

The first strike at Edjale on Algeria's eastern border was soon followed by successful drillings further to the west at Hassai Messaoud. In both areas additional test wells proved out, and with two promising fields in evidence a real oil boom got underway. Large amounts of natural gas were also found. Since the same geological formations continue eastward into neighboring Libya, oil companies stepped-up the search there too. Initial activity in the Fezzan area bordering Algeria was not very fruitful, but just this past summer a couple of major gushers were brought in further east in Cyrenaica province. These latest finds, only 100 miles from the coast, guarantee Libya a share in North Africa's oil bonanza.

The first trickle of oil from the Algerian Sahara began reaching France early in 1958. The total will be about 1½ million tons this year. Utilizing new pipelines and pumping stations recently completed or still under construction, throughput capacity will rise to 10 million tons in 1960 and 25 million tons by 1962. Additional facilities already being planned are expected to permit production of 50 million tons in the Algerian Sahara by 1965.

Estimates of recoverable reserves are constantly

Oil Companies in Algerian Sahara

COMPANIES WHICH HAVE DRILLED:	Approximate Concession Area (square miles)
S.N. REPAL—joint enterprise Gvt. of Algeria and French Govt. Petroleum Dept. (B.R.P.).	58,000 (Hassi Massaoud)
C.F.P.(A)—jointly—Compagnie Francaise des Petroles (85%), and several small companies.	32,000 (also Hassi Messaoud)
C.P.A.—Royal Dutch-Shell 65% and several French companies, plus B.R.P.	34,000
CREPS—Royal Dutch-Shell 35%, and several French companies and government bodies.	33,000 (Edjele field)
C.E.P.—French Govt. Petroleum Dept. 50%, plus misc. French companies.	45,000
CAREP—S.N. Repal 73%, plus private stockholders.	1,000
S.N.P.A.—French company.	3,000
OTHER COMPANIES ACTIVE:	
SAFREP—French Company.	30,000
COPEFA/Phillips—joint French-American ownership.	4,000
PREPA/AFROPEC—joint French-American (Cities Service)	4,000
PETROPAR/Franco-Delhi—joint French-Canadian ownership.	1,000
PETROPAR/Ausonia Mineraria—joint French-Italian.	1,000
PETROPAR/Pan American/Franco-Wyoming—joint French-American.	1,000
SAFREP/Sinclair/Newmont Mining—joint French-American.	2,000

Oil Discoveries in Libya

Well	Company	Yield on Test (bbls per day)
TRIPOLITANIA:		
Bahi	Oasis	500
Dahra	(Ohio Oil Co.,	700
F-1-32	Amerada, & Continental)	700 —still testing
Bir Tlacsin	Royal Dutch Shell	650
Emgayet	Gulf Oil	750
A-1-26	Oasis	"substantial"
Mobruk	Libyan American [Texas Gulf Producing, W. R. Grace and Standard (N.J.)]	500
CYRENAICA:		
Zelten 1	Standard (N.J.)	17,500
Zelten 2	Standard (N.J.)	15,000
Beda	Caltex (S.O. Calif. and Texaco)	3,650
Amal	Socony Mobil	"substantial"
FEZZAN:		
Atshan	Standard (N.J.)	"non-commercial"
Oued Tahana	C.F.P. (French)	100

being revised upward; the total for fields presently known is conservatively placed at 700 million tons of crude oil and at least 750 billion cubic meters of natural gas. Already studies are being made to determine the feasibility of laying an underwater pipeline directly across the Mediterranean to Europe.

Oilmen are increasingly optimistic about prospects in neighboring Libya, but not enough wells have been drilled there yet to really size-up the potential. However, Libya has an oil law favorable to private enterprise, and this has been a factor in the step-up of activity here. All the major oil companies are now prospecting in Libya, plus a number of the independents. At least a dozen wells with good commercial yields have been drilled so far, in widely scattered locations. Many of these discoveries have a double advantage over Algerian supplies: they are far closer to the seacoast and lie at only half the depth below the surface, hence a big savings in pipeline and drilling costs. Thus there is good reason for assuming that the commercial development of Libya's oil will at least keep pace with neighboring Algeria.

Significance for Europe

The significance of these North African oil discoveries is far reaching. The emergence of a new major producing area assures world markets an adequate supply of crude oil, despite future upsets and political disturbances. Europe, as the world's largest oil importer, sees the day fast approaching when its vital fuel supply can not be cut off suddenly as it was during the Suez Canal crisis of 1956.

Western Europe's net imports of oil last year were more than 130 million tons — 86% of it from the Middle East. Almost all of this goes either through the Suez Canal or via pipelines exceedingly vulnerable to sabotage. As indicated in the accompanying bar chart, Europe's dependence on the Suez Canal has grown phenomenally during the past decade. Oil—mostly destined for Europe—now comprises more than 80% of the northbound tonnage transiting the Canal. Yet the continued safe passage of this vital cargo depends on the whim of one man —Nasser.

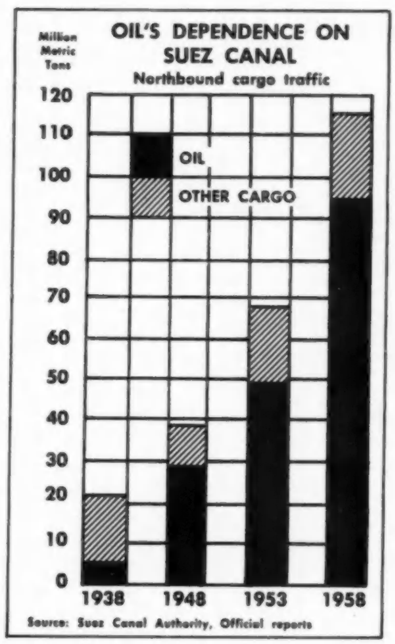
Equally important for Europe, and for oil consumers everywhere, is the effect North African production will have on the world balance of supply and demand. Although producing capacity is now somewhat in excess of demand, consumption is growing steadily and could well catch up with existing capacity in a few years. Rising Arab nationalism has fostered the notion that the West cannot do without Middle Eastern oil, and thus the sheiks and politicians are emboldened to demand ever greater royalties and benefits. *At the recent Arab Oil Congress in Cairo, the semblance of a common front against the Western oil companies began to appear. Elsewhere too there have been difficulties: notably in Venezuela where the oil companies handed over in good faith a record $600 millions in concession payments several years ago and have now had retroactive new taxes assessed.*

Over-dependence on a few sources of crude oil, no matter how bountiful the supply, is bound to bring pressure for higher payments. The end result of course is higher cost to the consumer, for it is he who foots the final bill, not the oil company. Thus

there is economic as well as political advantage in diversifying operations, and the international oil companies hope to strengthen their hand and gain a little leverage by developing new sources of crude supply in North Africa.

Another economic benefit from Saharan oil is its nearness to European markets. Its pipeline outlets on the Mediterranean are 1,200 miles closer than pipeline terminals on the Levant coast for Iraqi and Saudi Arabian oil—a time saving of at least six days for the round trip by tanker, equivalent to about 50¢ a barrel. The round trip advantage over the water route to the Persian Gulf is an impressive 9,000 nautical miles. This geographical advantage assures that North African crude production will find a ready market in Europe which is over 90% dependent on oil imports.

These large new supplies of North African oil will quite likely speed the growth of motor vehicle use in Europe, particularly France where gasoline at present is heavily taxed. The Sahara's light weight crude yields far more gasoline and less of the heavy distillates such as fuel oil than does Middle Eastern crude. But French petroleum consumption is now heavily weighted by industrial fuel requirements. To satisfy these same needs with Algerian crude oil, French refineries will be forced to produce much more gasoline than at present. The French Government has noted that increased consumption of motor fuel will be required to balance product use, and French motorists are presuming that a reduction in gasoline taxes will be forthcoming. This could have wide reprecussions — increased auto sales, personal travel, highway construction, etc.



France Looks to the Future

For the French, oil from the Sahara is the realization of a long cherished dream. In the political sphere it is another step toward regaining Great Power status . . . self-sufficiency in oil supply, freedom to pursue an independent Middle East policy. The economic factors are of greater practical benefit. The development of franc-zone oil will put an end to the largest single drain on the French balance of payments—the foreign exchange cost of oil imports. Within five years France may even be a net exporter of oil products.

As for the possibility of eventual independence for Algeria, the French do not see this as affecting their position in the Sahara. France has been taking great pains to point out that for nearly 60 years Algeria has been divided into two administrative portions: the inhabited coastal area to the north, and the vast but empty desert region to the south. For the French, there can be no question of self-determination for a virtually uninhabited area. Since the beginning of 1957, the southern territory has been split off from Algeria and made part of the Common Organization for the Saharan Region (O.C.R.S.), an administrative unit that includes the colonies of Niger, Soudan, and Chad to the south.

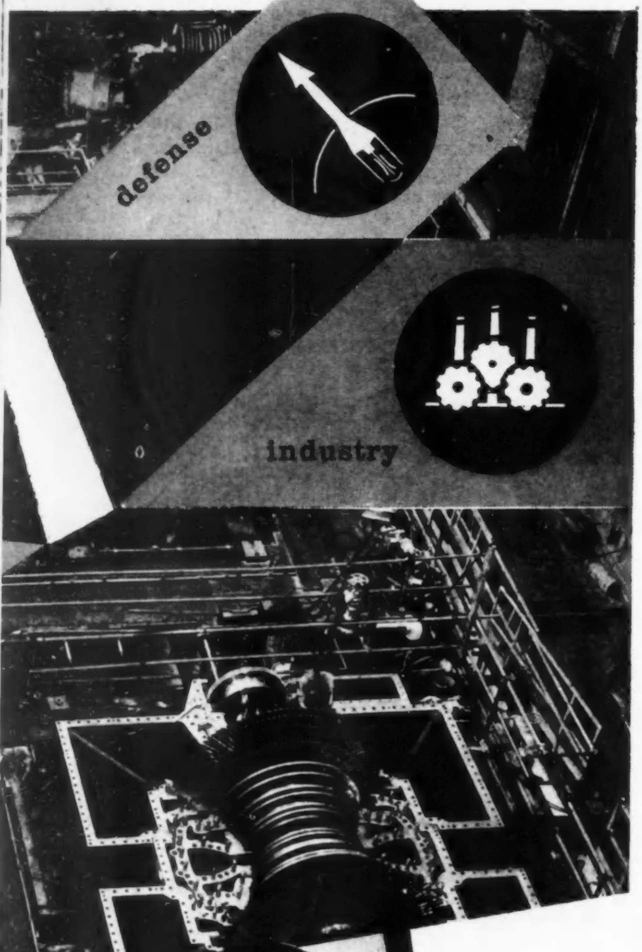
French Government Dominant in Algeria

The French Government has played the leading role thus far in development of Saharan oil. Foreign capital accounts for only one-quarter of total investment there. Following World War II a special government department was established to direct oil exploration in the Sahara—Bureau de Recherches de Petrole. BRP, as it was called, was the prime mover in formation of half a dozen exploration companies combining various government agencies and limited private participation. It was the means by which vast sums of public funds were channeled into the search for desert oil.

The first company formed was S. N. REPAL, owned jointly by BRP and the Government of Algeria. S. N. REPAL, in turn, formed operating companies in conjunction with various private interests. **Companie Francaise des Petroles,** the largest oil company in France (owned 35% by the Government), also established an Algerian subsidiary. Until recently, **Royal Dutch-Shell's** 35% participation with the French Government in CREPS and 65% share in CPA was the only foreign capital involved in Saharan oil. The Government was unwilling to give foreigners a majority interest (Shell's case was an exception), and the oil companies were reluctant to invest without control.

The initial oil discovery in the Sahara was made by CREPS at the beginning of 1956. It found oil at a relatively shallow depth at Edjale near the Libyan frontier. After this exciting first discovery, CREPS went on to locate three more sizable reservoirs nearby. Although more than 75 test wells have been put down, the dimensions of these four fields have not yet been established. With minimum recoverable reserves placed at 150 million tons, a 24-inch pipeline to the Mediterranean coast is now being laid. It is scheduled for completion next October with initial capacity of 8 million tons annually, which will be more than doubled by 1962 when additional pumping stations are placed in service. It is significant that this 420-mile pipeline from Edjale does not even enter Algeria proper (see map on page 233), but instead traverses Tunisia to reach the Mediterranean shore.

Half a year after the initial success at Edjale, the rich Hassi Messaoud oilfield was found deep beneath the sands of the Central Sahara. The discovery well, which took six months to drill, was completed at a depth of more than 11,000 feet. Despite the high drilling costs at this depth, the Hassi Messaoud field has received the greatest attention because of its vast size and good yields. More than 40 producing wells have been put down, but delimitation of the field is by no means complete. Estimates of recoverable reserves range from *(Please turn to page 262)*



PART TWO

Weighing Sharp Contrasts in . . .

1959 THIRD QUARTER EARNINGS REPORTS

By WARD GATES

- ►What factors other than the steel strike show up in the background of current earnings—and their significance for the rest of 1959 into 1960
- ►Has the rapid rate of profits growth passed its peak?
- ►Varying status of the individual companies

NOW that the vast majority of important corporate third quarter earnings statements have been released it is apparent the rapid rate of profit growth over the last twelve months is at an end. Only time will tell whether the cause is as simple and specific as the steel strike, or whether something more basic has occurred to cut back the rate of growth, but that it has been cut back is incontrovertible.

All in all, earnings of large companies are down approximately 30 percent from the second quarter of this year, a drop which constitutes a dramatic reversal of the steadily upward trend that has been in progress since the third quarter of last year. Moreover, this year's advance over the comparable period of 1958 appears to be no more than 5 percent, far below the rate at which previous quarterly earnings were advancing over the same periods of a year ago.

Admittedly the picture is a little brighter if we remove steel and rail figures from the aggregates, but even under these circumstances the third quarter shows a decided slowdown. As a matter of fact three out of every five companies reporting are showing lower earnings than in the second quarter, and if the current trend persists the record will be even less impressive in the final three months of the year.

As pointed out in Part I of this article which appeared in the previous issue of The Magazine of Wall

Street, the usual procedure of releasing nine-months earnings tends to mask these adverse trends. Combined earnings for the year are well ahead of the 1958 figures, but this is so only because of the exceptionally strong first half of the year compared with limited first half 1958 profits. The change that has occurred in the third quarter however, may have far-reaching significance not only for investors but for the entire nation as well.

The Federal budget, for example, was expected to be in balance this year largely because corporate profits were anticipated at about $48 billion. They ran above that rate in the first half of the year, but if they continue at their present pace for the balance of the year (and they will probably be lower) the expected $100 million budgetary surplus will undoubtedly swing over to the deficit side. Just in the steel industry alone, it might be pointed out, the tax picture has swung from tax liabilities of almost $150 million in the first half of the year to credits of almost $200 million as a result of the third quarter debacle. These figures alone are enough to swing the Federal budget into a deficit. Moreover they do not take into account the losses suffered by the rail industry, the auto industry and the lost tax revenues for the government from the strike-swollen unemployment rolls.

Non-Strike Factors in Earnings

It would be especially heartening if we could pin all of the blame for the changed earnings picture on the steel strike. All that would be necessary, then, would be to await the end of the strike in calm confidence that earnings would again surge when the mills reopen. Unfortunately, it is not that simple. For even in industries not affected by the steel shutdown the rate of earnings progress has slowed down considerably. Moreover, the few industries such as textiles and chemicals that scored marked improvements in the third quarter were the same ones that were especially depressed a year ago.

What has happened, of course, is that industry has already dissipated the high profit margin advantages it received from the sudden swing from recession to prosperity. Where the initial surge benefitted tremendously from new plants and equipment, earnings are now being held back by the pressure of unused capacity. This is particularly disturbing in the industries that should have been direct beneficiaries of the steel strike and the less publicized but all-important copper strike. Aluminum, for example, should have been in extra good demand during this period and yet several key companies have been forced to cut back operations to about 80 percent of capacity.

In the paper industry, demand has been exceptionally good for paperboard and building papers despite the labor strife in other sectors of the economy, and yet it it still plagued by overcapacity. These facts must lead to the suspicion that prices held during the first half of the year largely owing to the artificial stimulants of the expected steel strike. When it is over, and after the initial surge of inventory rebuilding spends itself, holding the price line may be a more important consideration than price increases.

Impact on Dividends

For investors, these developments have particularly cogent significance because slower earnings growth and depressed prices may mean less happy dividend news. Already there are signs that corporations will not be quite so generous this year end as they have been in the last few years.

Deere & Co. *may have set the tone with its disappointing stock payment instead of a large cash disbursement. On the news, Deere's stock fell sharply in the market, indicating that the public, with its excessively bullish attitude, is not fully prepared to accept sudden shocks of this kind. The significance for the entire stock market should not be missed by astute investors. Only a higher level of earnings and dividends can justify the present level of stock prices, and if neither materializes to the extent expected there may be some rude shocks ahead.*

If only farm equipment makers had reasons to view the future with doubt there would be little concern. However, tight money has cut the heart out of the building boom, indicating smaller earnings for the vast number of companies that supply building materials. Moreover the government has recently released figures showing that in the last ten years there were actually 2 million more homes built in this country than showed up in the statistics. This statistical error, aside from reducing faith in all statistics, leaves some observers with the uncomfortable feeling that we may be much closer to the point of housing saturation than anyone had heretofore suspected. After all, 2 million homes is equal to almost 2 years worth of home construction at normal levels and almost one and three-quarters years construction at peak post-war rates.

Armstrong Cork, among the building materials producers points up some of the difficulties that may lie ahead. To date, 1959 has been a booming housing year, yet third quarter earnings failed to match the $1.08 reported in the second quarter despite a small increase in sales. When compared with a year ago, however, Armstrong's figures make better reading than most other companies. Sales in last year's third quarter were $63.7 million and earnings came to 70¢. One year later sales were almost $77 million and per share net had climbed to $1.03. Nevertheless the quarter by quarter trend indicates that earnings have slowed down *while the housing boom is still in progress.* What will happen as new home building begins to tail off?

Capital Spending in Doubt

New housing and the high level of farm income were among the principal props that kept the economy from toppling into deep depression during the last recession. Both have now weakened considerably. As an offset, however, it has been expected that capital spending would serve as a big prop for the economy in the months ahead. Now it is not so certain. Many companies are finding their expansion plans upset by tight money, the uncertainties created by the steel strike, and the inability of demand so far to absorb all of the capacity companies have on hand.

Quarterly Income Comparison of Industrial Companies

	3rd Quarter 1959			2nd Quarter 1959			1st October 1959			3rd Quarter 1958		
	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share
Air Reduction	$49.2	7.3%	$.93	$53.9	7.5%	$1.04	$47.9	7.8%	$.97	$43.1	7.4%	$.83
Aluminum Co. of America	218.1	5.7	.56	235.3	7.7	1.32	189.5	5.6	.49	204.1	6.4	.62
American Brake Shoe	38.2	2.4	.57	49.2	6.4	1.96	40.3	4.6	1.15	30.4	1.4	.27
American Can	362.7	5.1	1.14	283.4	4.8	.83	227.0	3.4	.45	325.9	5.8	1.17
American Smelting & Refining	42.9	8.0	.47	155.9	2.0	.44	115.6	3.1	.51	103.4	3.5	.51
American Steel Foundries	29.8	7.4	1.53	33.8	8.2	1.89	27.6	5.3	1.28	18.4	3.3	.47
Armco Steel	188.6	4.6	.60	332.7	8.8	1.99	259.2	8.1	1.43	210.3	6.3	.87
Armstrong Cork	76.9	6.9	1.03	75.4	7.4	1.08	66.8	6.4	.83	63.7	5.7	1.03
Babcock & Wilcox	68.6	3.7	.42	96.4	5.9	.92	77.8	5.7	.72	83.9	4.4	.61
Bethlehem Steel	198.6	d19.6	d.89	832.2	8.8	1.59	615.9	8.0	1.06	472.4	5.5	.55
Borg-Warner	156.3	4.6	.80	178.0	5.9	1.18	149.7	5.1	.87	129.1	2.7	.38
Brunswick-Balke-Collender	108.5	11.5	1.72	57.2	7.6	.60	27.1	4.6	.19	86.7	8.0	1.03
Burroughs Corp.	88.4	2.3	.32	86.8	1.9	.26	80.9	1.9	.23	68.7	2.3	.25
Celanese Corp. of Amer.	65.7	8.1	.57	68.6	8.0	.74	58.8	8.3	.64	59.7	7.3	.43
Consolidation Coal	49.6	3.7	.20	67.5	7.4	.55	78.1	6.6	.57	63.2	5.6	.38
Container Corp. of Amer.	73.4	5.6	.39	70.3	6.3	.42	66.2	6.1	.38	68.2	5.4	.35
Continental Can	364.0	4.8	1.41	295.2	4.4	1.06	236.9	2.5	.49	328.4	5.1	1.47
Corn Products	126.3	6.5	.76	122.1	5.4	.61	115.2	5.6	.59	126.2	6.7	.74
General Amer. Transport.	48.3	8.7	.77	55.3	8.0	.82	45.6	8.4	.74	49.9	7.4	.76
General Motors	2,345.4	5.6	.47	3,305.5	8.9	1.05	3,206.1	9.1	1.03	1,622.9	4.0	.22
Johnson & Johnson	80.2	6.2	.85	76.1	4.9	.64	73.9	5.3	.66	70.2	5.8	.77
Jones & Laughlin	66.6	d24.7	d2.15	316.3	8.3	3.34	236.3	7.5	1.97	161.8	4.1	.81
Koppers Co.	61.5	2.0	.49	61.8	2.5	.62	51.9	2.0	.38	66.6	2.3	.61
Liggett & Myers	144.4	6.1	2.15	144.0	5.5	1.95	130.1	5.4	1.71	145.6	6.0	2.14
Link-Belt Co.	37.9	3.1	.63	36.9	4.0	.80	41.0	4.5	1.00	34.3	4.7	.87
Lorillard (P.)	132.5	5.9	1.16	126.5	5.9	1.11	113.8	5.4	.91	132.0	5.6	1.26
Merck & Co.	56.1	14.4	.75	54.7	14.6	.75	56.0	14.0	.73	52.4	13.5	.68
Motorola	77.1	4.6	1.86	65.2	5.0	1.69	63.6	4.1	1.35	52.6	3.3	.90
National Biscuit	107.1	5.5	.86	106.5	5.5	.86	101.4	5.1	.74	102.3	4.7	.70
Olin..Mathieson Chemical	182.4	5.0	.69	187.3	5.9	.84	159.9	4.0	.48	162.7	1.2	.15
Owens-Corning Fiberglas	55.2	7.7	.64	54.6	8.6	.71	46.1	5.4	.38	46.1	6.4	.45
Owens-Illinois Glass	159.4	7.9	1.66	143.9	8.1	1.52	123.4	6.3	.98	136.2	8.0	1.42
Pfizer (Chas.) & Co.	62.7	9.3	.36	62.3	8.1	.31	60.5	10.4	.39	53.4	10.5	.35
Philco Corp.	102.1	1.9	.46	85.7	.9	.17	95.5	1.6	.37	95.9	1.8	.46
Phillips Petroleum	284.4	8.5	.70	297.7	9.1	.80	299.8	8.6	.75	264.2	8.0	.70
Pittsburgh Plate Glass	166.3	8.4	1.42	169.6	9.7	1.64	110.2	3.3	.38	151.0	7.9	1.22
Pullman	105.6	2.6	1.20	106.9	3.5	1.68	90.7	2.7	1.11	80.0	2.1	.75
Reynolds (R. J.) Tobacco	339.6	7.1	1.20	323.6	7.0	1.13	286.6	6.8	.74	304.9	6.7	1.00
Schering Corp.	23.9	17.3	1.01	19.1	13.0	.60	19.8	13.6	.65	20.8	11.7	.84
Shell Oil	452.9	7.6	1.15	444.5	7.8	1.15	449.7	7.6	1.14	425.7	8.2	1.16
Simmons Co.	37.1	5.2	1.68	33.9	5.0	1.47	31.6	4.4	1.21	34.0	4.4	1.28
Standard Oil of N. J.	2,064.0	7.8	.75	1,938.0	7.6	.69	2,018.0	8.2	.78	2,008.0	7.2	.71
Sutherland Paper	17.0	2.6	.39	17.8	4.4	.70	15.9	3.0	.42	16.0	3.5	.53
Texaco	N.A.	N.A.	1.63	1,262.1[1]	12.8[1]	2.79[1]	N.A.	N.A.	1.56	593.4	15.0	1.50
Thompson Ramo Wooldridge	100.1	1.6	.51	105.9	2.3	.80	91.2	2.4	.71	81.7	2.2	.57
U. S. Rubber	234.3	3.2	1.09	259.5	3.3	1.30	249.3	4.0	1.55	204.0	2.7	.74
U. S. Steel	368.3	d8.4	d.69	1,448.7	10.2	2.64	1,077.5	9.8	1.86	872.1	8.5	1.28
Westinghouse Electric	494.1	4.4	1.25	474.1	4.1	1.12	440.0	3.2	.81	460.5	4.1	1.09
White Motor	79.2	4.0	1.57	91.4	4.4	1.99	82.8	3.3	1.34	63.8	2.4	.75
Wrigley (Wm.) Jr., Co.	24.9	11.0	1.39	24.4	10.5	1.31	21.4	12.1	1.33	24.5	11.3	1.42

d—Deficit. N.A.—Not avaiable. [1]—1st 6 months to 6/30/59.

The most dramatic changes are occurring in the oil industry where Standard Oil of New Jersey *announced a major cutback in capital outlays, but there are other and possibly as significant trouble spots. With major labor troubles ahead, for example, the railroad industry is not nearly as eager to go ahead with its expansion plans as it was six months ago.*

The steel strike has cut deeply into the earnings reserves they had available to carry them through their own period of tribulations. Thus, the makers of railway equipment who are now suffering from a shortage of steel may find that the orders may no longer be there when steel is available.

This would be a terrific blow on top of the damage the strike has already caused. **American Brake Shoe,** a major railway equipment maker was well on its way to recovery until steel shortages plummeted third quarter earnings to 57¢ a share from $1.96 only three months earlier. Fourth quarter results will be no better and there are now serious doubts that next year will be strong enough to make up for the lost business. **Pullman** is in much the same boat, except that its truck trailer business may serve as something of an offset. Nevertheless earnings for all of the equipment makers will have to be watched carefully through the first quarter of next year.

Major Company Reports

In general, the nation's major companies exhibited the same trends in the third quarter as all other companies. There were some notable exceptions, however.

Westinghouse continued the progressive betterment that has been going on for over two years now. Sales and earnings not only topped a year ago, but were also the best for any quarter this year. Reflecting this excellent performance, directors recently announced a split in the shares and an increase in the quarterly dividend.

Steel shortages are not hurting Westinghouse, but increasing competition and the recently reduced prices in the heavy generator field may adversely affect earnings next year. In addition, unless the strike ends soon the company's appliance sales are bound to dwindle off under the combined impact of reduced steel inventories and lower consumer income.

Owens-Illinois Glass, another major in its industry also ran against the general trend, scoring its best earnings of the year in the third quarter. Sales were at their highest level since the third quarter of last year and net per share climbed to $1.66 from $1.52 three months earlier and $1.42 in the third period of last year. It should be pointed out, however, that Owen's profit margins in the quarter just ended were lower than the previous quarter and were also below the third quarter of 1958. The drop so far has not been excessive but it will bear watching.

Schering, among the major drug companies, was a notable exception to the general picture. New product sales soared in the third quarter reversing a trend that had been pathetically ordinary through the first half of the year. In the first six months the company earned $1.25 per share, a rate considerably below the previous year. However, in the third period profit margins soared as a result of new products and earnings equalled $1.01 per share compared with 60¢ in the second quarter and 84¢ a year earlier.

Widespread Strike Influence

It is difficult to wend through corporate reports without being struck over and over again by strike damage. **U.S. Steel's** huge deficit is readily understandable, as is that of **Bethlehem** and **Jones & Laughlin. Armco,** able to keep some mills in operation, reported some profit, but of course sharply reduced from previous periods.

Outside the industry however, the damage is also extensive. **American Can** and **Continental Can,** unable to get enough steel, both saw their earnings dip below the third quarter of last year. Continental has already warned shareholders that as a result of the strike, earnings now will definitely not reach the level of the full year 1958. The same will probably hold true for American.

Auto company results are widely distorted by the early shutdown for new model changeovers, so that the 47¢ reported by **General Motors** is not too significant a comparison with other quarters. What is crucial for GM, however, is the fourth quarter, for with steel operations at a low ebb, production will be at a virtual standstill through much of the period.

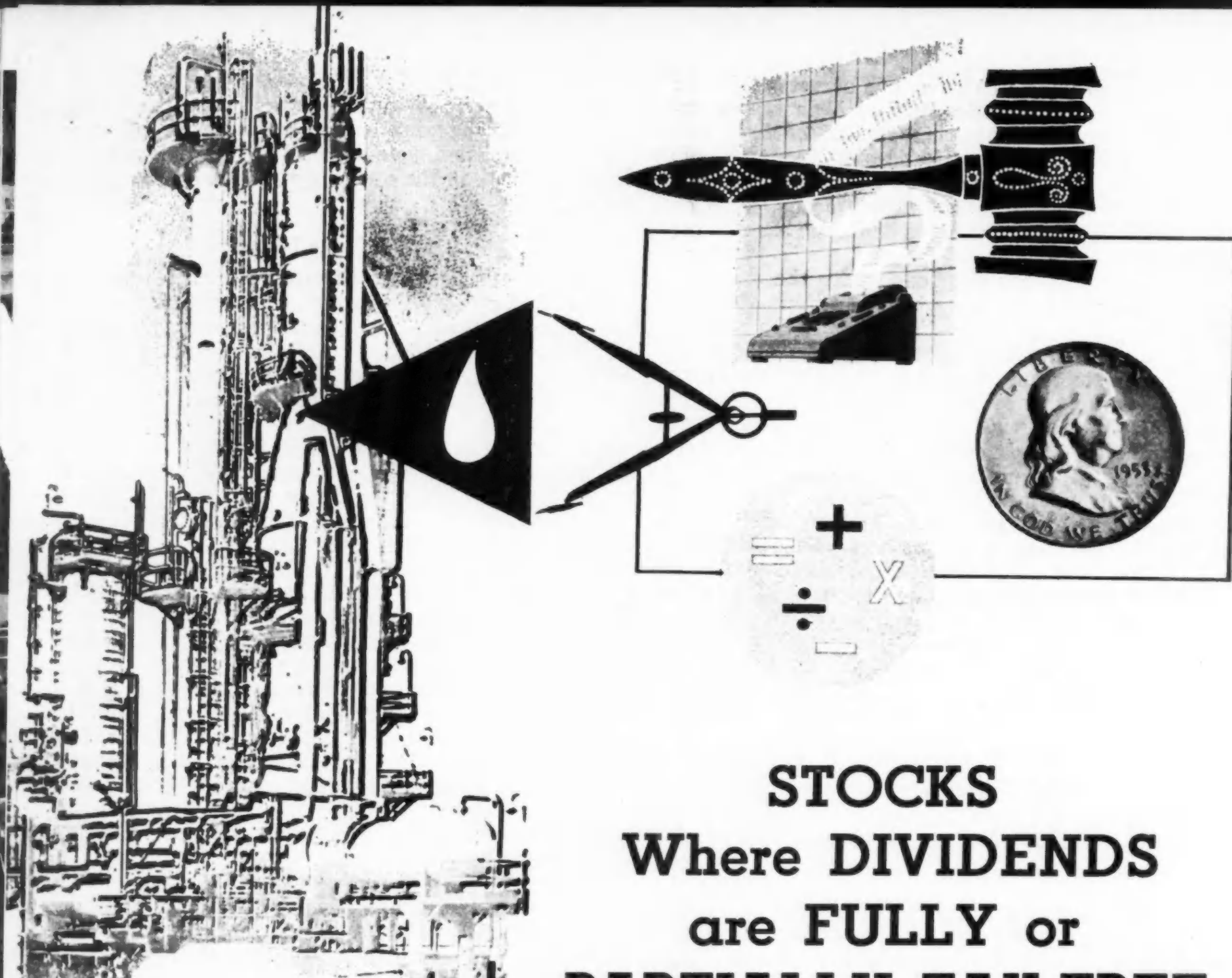
On the other hand, the auto equipment makers should have enjoyed a good third quarter as a result of the early new model year.

Borg Warner scored an impressive gain over the third quarter of 1958 showing net per share of 80¢ compared with only 38¢. Profit margins sagged from the second quarter, however, as did sales, and earnings were down from the $1.18 reported just three months earlier. Unless the car companies have permanently lost the sales they would have made had there been no steel strike, the equipment makers should make up for lost time in 1960, but this is always a doubtful matter. Management will not feel content until the sales are in the bag.

More puzzling, as hinted earlier, is the performance of **Aluminum Co. Of America.** In recent months the company has caused some havoc in the industry by introducing a new and less costly type of aluminum. Despite the success of this product however, earnings at 56¢ a share were below the same period of 1958 and sharply under the second quarter of 1959 when the company reported $1.32 per share.

Perhaps the recent increases in copper prices resulting from the strike-curtailed output of that industry will firm the price of aluminum, but the suspicion is growing that Alcoa's overcapacity problems are greater than expected.

This is also of significance for **Olin-Mathieson** since the major portion of the company's expansion in recent years has gone into its Ormet aluminum subsidiary. So far this year Olin has scored impressive gains over sharply depressed 1958. Third quarter earnings of 69¢, for example, compare with only 15¢ last year. The aluminum operation has been absorbing start-up expenses through much of this year (almost 10¢ a share in *(Please turn to page 267)*



STOCKS Where DIVIDENDS are FULLY or PARTIALLY TAX-FREE

By WILLIAM AMOS

As taxes (especially Federal income taxes) have continued to climb, investors have become increasingly interested in securities with tax-exemption or tax-deferment features. While tax-exempt municipal or governmental agency bonds represent the principal medium along this line, there is also a special and less widely known category of stocks whose dividends carry special tax features of interest to investors in the higher tax brackets.

In general, the stocks with so-called "tax-free" or "partially tax-free" dividends fall into two main classifications. One group includes companies such as Electric Bond and Share Company, United Corporation, General Precision Equipment Corporation and Alleghany Corporation, all of which are in a position to take large tax losses on old investments, and so to establish tax credits which, as stated in General Precision's 1958 Annual Report to Stockholders: *"In the opinion of the Corporation counsel, dividends paid by the Corporation in 1958 should be treated for Federal income tax purposes as paid from other than 'earnings and profits', and stockholders should, as in the past, apply dividends against and reduce the cost of their stocks."*

The other group of stocks with special tax credit features attached to their dividends includes a group of utility equities. Due to the tax treatment of accelerated amortization and accelerated depreciation of certain of their plant facilities, *these companies have dividends which are considered, at least partly, a return of capital and therefore are, to this extent, not subject to Federal income taxes.*

What to Consider

In appraising the value of the tax feature of the stocks whose dividends are totally or partially exempt from current taxation or income, it is essential to keep two factors in mind. One is that, *while the special tax feature may last for several years, there is no complete assurance as to exactly how long it will be available. The second is that the ability to exclude all or a portion of the dividend income from the current year's taxable income does not mean that it is completely tax exempt.* What it does mean is that the income may be used, to the extent permitted, to write down the tax cost of the stock.

Companies Whose Dividends Are Entirely Or Partially Tax Free

	Net Earnings Per Share 1958	Interim Net Earnings Per Share 1958	Interim Net Earnings Per Share 1959	Total Div. Paid 1958	Percent of 1958 Dividend Tax-Free	Indicated 1959 Dividend (*)	Recent Price	Div. Yield
Atlantic City Electric	$1.28	$1.21[1]	$1.40[1]	$1.40	62%	$1.50	30	5.0%
California Electric Power	1.14	.94[2]	1.15[2]	.77	79	.80	19	4.2
Central Hudson Gas & Elec.	1.17	1.32[3]	1.39[3]	.80	54	.92	20	4.6
Detroit Edison	2.17	2.34[3]	2.36[3]	2.00	100	2.00	42	4.7
Electric Bond & Share	1.45	.74[4]	.76[4]	1.40	100	1.40	23	6.0
El Paso National Gas	1.61	.80[4]	.65[4]	1.30	84	1.30	28	4.6
Hartford Electric Light	4.06	3.73[2]	3.82[2]	3.00	78	3.00	62	4.8
Idaho Power	2.56	2.67[2]	2.15[2]	1.55	41	1.70	46	3.6
Missouri Kansas Pipeline	3.65	1.77[4]	1.78[4]	3.60	100	3.60	95	3.7
Niagara Mohawk Power	2.12	2.12[5]	2.08[5]	1.80	77	1.80	35	5.1
Philadelphia & Reading Corp.	3.10	2.18[6]	2.28[6]	.80	69	1.00[8]	51	1.9
Public Service of Indiana	2.91	2.83[3]	2.80[3]	2.02	40	2.10	44	4.7
Southern Natural Gas	2.40	2.40[2]	1.96[2]	2.00	12	2.00	37	5.3
Tennessee Gas Transmission	1.84	1.23[6]	1.16[6]	1.40[8]	17	1.40	32	4.3
Transcontinental Gas Pipeline	1.40	1.10[6]	1.13[6]	1.00	63	1.00	24	4.1
Union Electric Co.	1.77	1.73[3]	1.83[3]	1.52	61	1.64	32	51
United Corp.	.20	[7] .17[6]	[7] .16[6]	.35	100	.20	8	2.5
Washington Water Power	2.33	3.19[6]	3.76[6]	2.00	89	2.00	45	4.4

*—Based on latest dividend reports.
[1]—12 months ended August 31.
[2]—12 months ended June 30.
[3]—12 months ended Sept. 30.
[4]—6 months ended June 30.
[5]—12 months ended July 31.
[6]—9 months ended Sept. 30.
[7]—Net investment income.
[8]—Plus stock.

Presumably when the stock is sold any gain as measured by the difference between the tax cost and the sales price will be taxable as capital gains at a maximum rate of 25%

Even after taking into consideration these limitations, however, the tax-exemption or tax-deferred features of the stocks in this group remain attractive to investors in the higher tax brackets. The reasons for this are summarized following:

► By not having to pay the tax in the year in which the dividend is received, the investor has the use of the money which ordinarily would be payable as taxes, until such time as the stock is sold.

► The maximum rate of taxation of the dividend income as a part of long term capital gains is 25%. Thus, for an investor in the 50% income tax bracket, the tax would be half the amount which would be payable absent the special tax-credit feature.

► There are ways in which the capital gains tax might be offset or avoided completely. For example, the taking of the capital gains might be deferred until such time as the investor has offsetting security losses or, if he has a business of his own, until such time as he might have tax loss credit or exemptions sufficient to offset his capital gains. Another possibility is that the investor might never sell the stock but might leave it in his estate to heirs who would take it in at the then existing price without capital gains.

Thus, while the stocks with special tax credit features are not tax-exempt, it is possible in some cases to achieve a close approximation to the equivalent of tax exemption, at least to the extent of the credit. Of course, the higher the tax bracket of the investor the greater the potential value of the tax credit feature. For example, *an 80% tax-bracket investor* in the stock of United Corporation at 8¼ with the 1958 dividend rate of 35¢ would have had to obtain a gross dividend of $1.75 or a 21% pre-tax yield on a fully taxed dividend to equal the post-tax yield of 4.2%. For the *50% tax bracket investor,* the tax-exempt or tax-deferred feature would produce the equivalent post-tax yield of a fully taxable stock with double the dividend rate, or 70¢ per share in the particular case to which reference is made. For the *30% tax-bracket investor,* the tax exempt feature would have relatively little value unless the ultimate capital gains tax could be avoided by one or another of the aforementioned methods.

Take Utility Stocks

In the case of the utility stocks, which have tax exemption features, it will be noted that over half of the stocks had exemptions of less than 50% of the dividend paid in 1958. For a stock such as Public Service Corporation of Indiana with a 40% exemption, the effective tax rate to an 80% tax-bracket investor would be 32%, so that the tax exemption feature would still produce an equivalent post-tax yield 2¼ times as great as a fully taxed dividend.

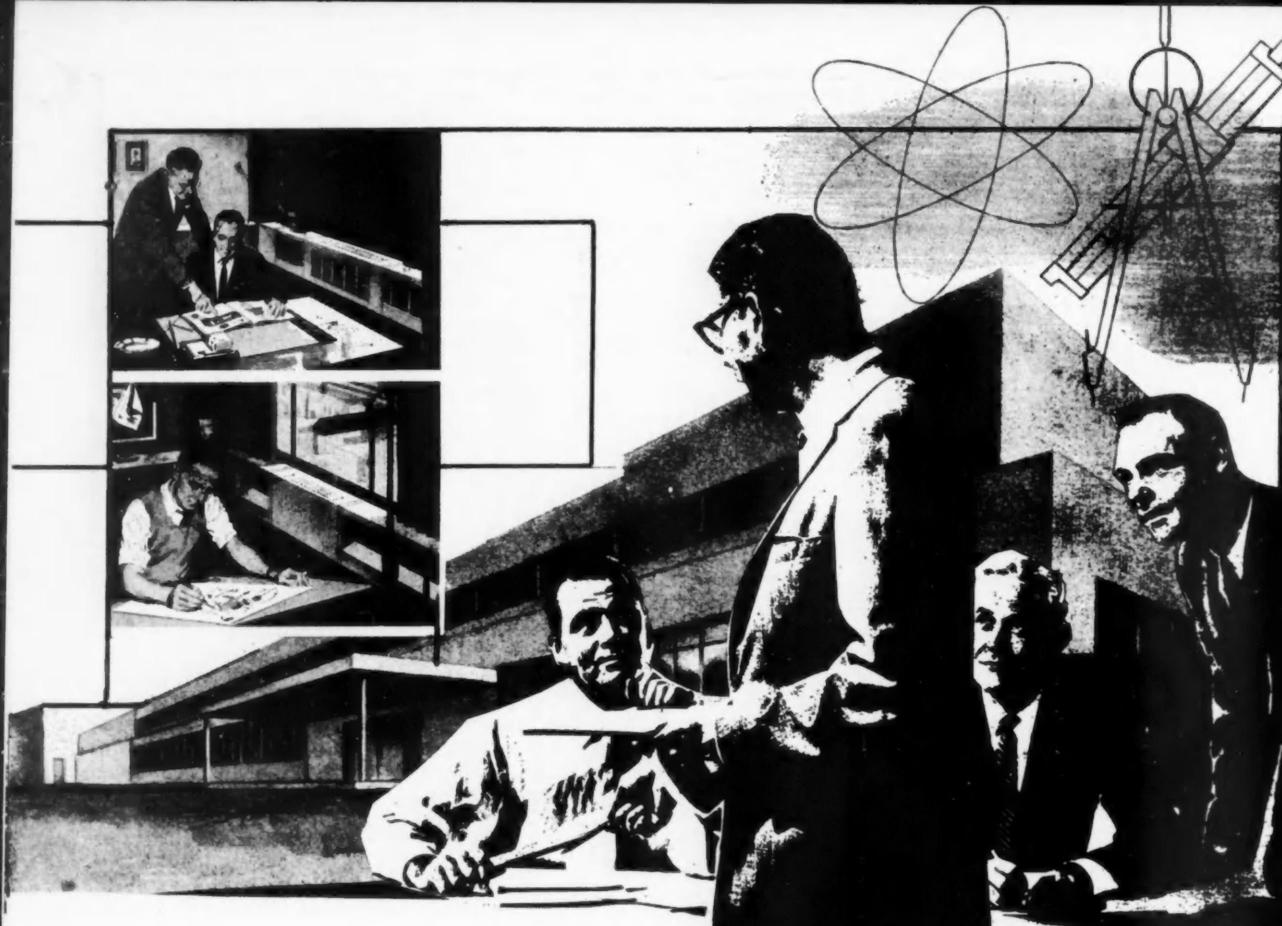
Income Tax Provisions

The subject of Federal income taxation as it affects stockholders has many facets. The average investor is rarely in a position to keep fully abreast of all the tax law provisions and changes in the law and administrative rulings as they affect him. However, at least a general knowledge of the provisions of the Federal income tax laws relating to dividend income and capital gains taxes is essential to a well-advised investment program.

Outlined briefly following are certain of the basic tax considerations which most frequently influence stock investment decisions:

Long term gains are substantially more desirable than short term gains since they are taxed at a lower rate. Where net long-term capital gains of a non-corporate taxpayer exceeds net short-term capital losses a deduction of 50% of the excess is allowed from gross income. The six-month holding period required to establish long term capital gains has had a great influence on the stock market. Tax selling late in the year to establish tax loss credits or to produce capital gains against losses taken earlier has become a major market factor.

Under the Revenue Act *(Please turn to page 258)*



Reappraising the MARKET LEADERS UP 30% or MORE FROM THE SEPTEMBER LOWS

By WALTER UNTERMEYER, Jr.

ALTHOUGH the Dow-Jones industrial average, at its recent price of around 645, has managed to struggle up around 5% from its September low of 613, there are a number of well known individual issues which have risen enormously, some as much as 100% over the same period. For example there is American Motors that rose from a September low of 46 to a recent price of around 88, Ampex from 72 to 107, Fairchild Camera and Instrument Corporation from 133 to 210, International Packers from 16 to 24, Lear Inc. from 11 to 20, Litton Industries from 102 to 133, Polaroid from 110 to 157, Studebaker-Packard from 12 to its recent price of around 26, Texas Instruments from 117 to 171 and Universal Match from 46 to 76.

Of the ten above mentioned issues, five come under the broad category of electronics, a term which has a mysterious connotation for the public, embracing the vast areas of remote control, guidance apparatus utilized in the computer field, the military and the space and missile program as well as other esoteric new fields. It is electronics which permits the development of a super brain, capable of deductive and memory feats beyond comprehension. It is electronics which pilots speedy missiles to targets thousands of miles away; it is electronics which permits one to lie in bed and tune in a picture on a screen by use of a remote control gadget detached from the set; it is electronics which can fire a gun at an unseen aircraft; it is electronics which will guide man's exploration through the unknown.

In discussing the price movement of the electronics

10 Stocks Up 30% Or More From September Lows

	Net Earnings Per Share 1958	1st 9 Months Earnings Per Share 1958	1959	Estimated Net Per Share 1959	Price Earnings Ratio	Sept. 1959 Low Price	Recent Price	Percentage Gain	Price Range 1958-1959	Indicated 1959 Div. (*)	Div. Yield
American Motors	$4.65	$2.61	$8.26	$10.00	8.8	46¼	88	89%	96⅞-25½	2.40[4]	2.7%
Ampex Corp.	1.29[1]	.13[2]	.34[2]	2.50	42.8	72¼	107	48	111¾-61¼	—	—
Fairchild Camera & Instrument	1.14	.19	2.77	4.75	44.2	133[5]	210[5]	57	214¼-50¾	.50	.2
International Packers	.79	.33[7]	.77[7]	3.25	7.3	16¼	24	47	24⅜-12¾	,50	2.0
Lear Inc.	.68	.43	.65	1.00	20.0	11	20	81	23¼- 9⅛	.40	2.0
Litton Industries	1.62[3]	—	—	1.35[8]	48.8	51[8]	66[8]	30	68 -36¼[8]	9	—
Polaroid	1.86	1.17	1.54	2.60	60.3	110¼	157	42	158¾-96¼	.20	.1
Studebaker-Packard	d2.08	d3.50	2.40	3.50[6]	7.4	12¼	26	116	29¼- 9⅜	—	—
Texas Instrument	1.99	1.10	2.50	3.55	48.1	117¼	171	46	171¾-61¼	—	—
Universal Match	1.56	1.31	2.05	2.75	27.6	45¾	76	65	73⅜-45	1.00	1.3

*—Based on latest dividend rate.
d—Deficit.
1—Years ended April 30, 1959.
2—Fiscal quarter ended July 31.
3—Year ended July 31, 1959.
4—Plus stock.
5—2 for 1 split, subject to stockholders approval 11/30/59.
6—On present common, excluding when issued stock.
7—Company only, for 6 months.
8—2 for stock split, subject to stockholders approval 11/21/59.
9—2½% in stock.

stocks it must be remembered that in varying degrees, each company is dependent on the military. The group tumbled in the September break accompanying Khrushchev's visit to the United States on fears that his rapprochement might result in a reduction of the defense budget. Some recovery then followed the Governmental recommendation that expenditures for the space and the missile program should, if anything, be augmented.

There is in this writer's opinion no rational way of putting a fair price on an electronics company. To start with, the great majority of security analysts are lacking in the technical background for valid comprehension and evaluation of its activities. But even assuming an analyst had some means of determining such various factors as the quality of of products, the competence of management, the research effort, the scope of the market and other imponderables, there is still the question of establishing an appropriate price: earnings ratio.

For example, Litton Industries, Fairchild Camera and Instruments and Texas Instruments are all selling somewhere between 40 and 50 times estimated 1959 earnings. The sales of Texas Instruments and Litton Industries tripled over the past three years while Fairchild's sales rose only about 10%. And yet all three companies sell at comparable P/E ratios.

Lear, on the other hand, whose sales may experience a 10% rise sells at twenty times earnings. Lear, however, is in a different branch of electronics, and its business is mainly 90% military as opposed to a company such as Litton whose business is 50% military. Do these differences warrant Lear's selling at a price-earnings ratio half as great as that of Litton? Who is to determine which electronics companies are entitled to sell as high as between forty and fifty times earnings?

Speculating or Gambling?

Obviously, the market says so at the moment because this is the fashion of the times, but supposing the fad were to change, and the investor should decide these companies only merit a multiplier of thirty or less? These high-flying electronics companies could then easily lose a third of their value without any change in their earnings picture. In the recent market break, Haveg Industries, another high multiplier stock came down from a summer's peak of 80 to a September low of around 44. Yet nothing changed in the outlook for this company. The drop in price simply reflected investor reappraisal of how much should be paid for the company's present and future earnings. Furthermore, since it is unlikely that the earnings outlook and future potential for the various so-called "growth" companies is going to change materially over the near term, the only way these stocks can appreciate is for the speculator to be willing to accord them a higher multiplier. This then is a question of brokerage house promotion and the speculator's whim and, as such, hardly a decision for security analysts.

How Much Imagination in "Growth"

It has often occurred to me that "growth" is the most overworked term in Wall Street. To get down to fundamentals, the only valid reason for paying a high price: earnings ratio for growth is that eventually corporate earnings will rise sufficiently to enable the company to pay a dividend that will afford the stockholder a fair return on invested capital. For a stock such as Fairchild Camera, selling around 210, the earnings should permit a pay-out of at least a regular $8.00 a year cash dividend if the stock is to be soundly valued at the present price. The investor should be further compensated for the time he has waited. Additionally, since an $8.00 a year dividend would barely justify the present price, one should be able to visualize vastly greater earnings and dividends to warrant the risk. Since all this is far in the future, the stock in my opinion is a long shot on any logical basis. Where investors are knowingly willing to buy on faith and promises of the hereafter, they should buy without regard to near term fluctuation and hold as long as the prospects of the company remain sound.

Again if I were to buy Texas Instruments here at 163, I would only do so with the hope that sometime within the next ten years it would sell at

1000, and, therefore, whether I pay 140 or 180 is of little importance. I would not buy it unless I thought so.

Fairchild Camera and Instrument Corp's main business is the manufacture of reconnaisance systems which include aerial cameras, control processing systems, telephoto and optical scanning equipment, the development of missile ground support equipment, nuclear instrumentation, safety arming and fusing devices. The company's Graphic Equipment Division produces a device for scanning and automation of typesetting. Its Scan-a-Graver is an electronic machine for making plastic offset plates for either color or black and white. An Industrial Products Division makes a variety of photographic equipment including recording and identification cameras, a 16mm automatic film processor, sound recording motion picture cameras and optic X-ray equipment Its Fairchild Semiconductor Corp. affords an increasing stake in the transitor market. In 1958, Fairchild Camera and Instrument Corp. earned $1.14 per share on sales of $32 million. The stock has been strong on indications of vastly improved 1959 earnings of between $4.50 and $5.00 per share on sales of around $40 million. There are also rumors of a stock split. The stock is high, but in line with comparable issues.

Lear Inc. specializes in the manufacture of aircraft flight control instrumentation and systems which encompass automatic pilots, bombing systems, vertical gyros and components for guided missiles. The company also produces electro-mechanical actuators, aircraft pumps and radios. Lear, recently 20, has doubled in price from its September low of around 11 to a high last week of 23¼ on the strength of *rumors* of a tender to stockholders of $25 per share on the part of a German Bank which supposedly was desirous of obtaining 500,000 shares, the equivalent of around 20% of the outstanding stock and probably sufficient to have afforded controlling interest. Lear was also the beneficiary of a merger *rumor* which linked it to Northrop, recently 28, on a share for share exchange. I would be inclined to doubt both stories and to avoid fresh commitments in Lear at current levels since there has been no basic change to warrant the recent doubling of price.

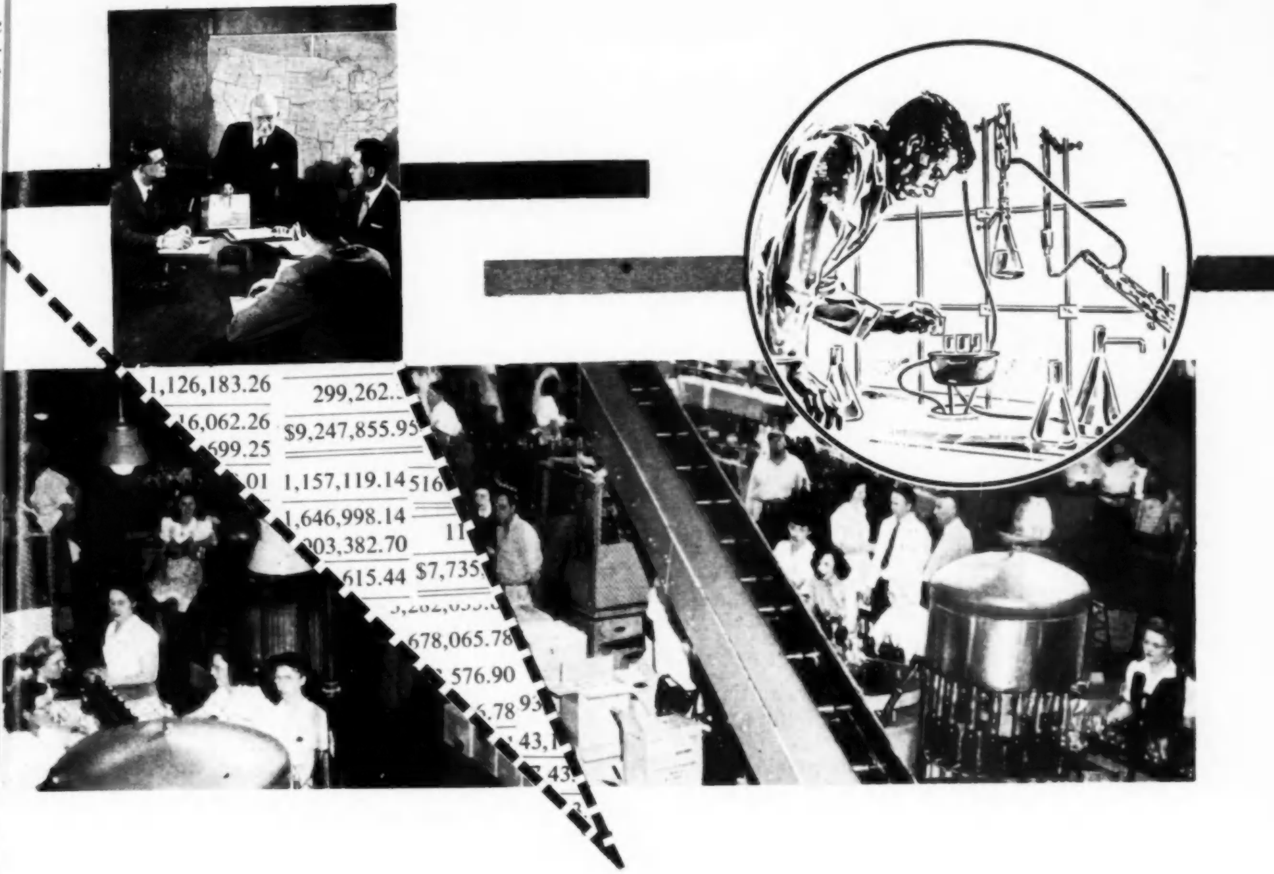
Texas Instruments produces electronic devices and is a distributor of geophysical, industrial and electronic controls. The company also has a hand in the manufacture of clad metals and thermostatic and electrical controls through the Metals and Controls Corporation acquired in April of this year. The increasing demands for transistors provides one area where enormous sales growth may be anticipated in the future—although both domestic and foreign competition is becoming sharp. Texas Instruments has had a substantial price rise acompanying indications of per share earnings expectancy in the neighborhood of $3.50 for this year versus last year's $1.84 with a further earnings jump forecast for 1960. The stock is a stock split candidate.

Litton Industries produces business machines and electronic systems. In the area of electronic systems, the company produces digital computers and controls, automatic radar data processing equipment and inertial guidance systems. Such equipment is utilized in the telemetering and communications fields, in navigation, servo-mechanisms, automatic instrumentation, flight simulation for test and control, missile launching and automatic film magazine equipment for X-ray photography. The company's Monroe Calculating Machine subsidiary manufactures and distributes various office machines calculating, bookkeeping, punched card and tape machines. Litton's 1959 sales are expected to rise from last year's $83 million to $100 million and per share earnings from 1958's $2.13 to around $2.70. With around 50% of its business military, Litton Industries at its recent price of 130 seems on the high side in relation to other electronic companies of comparable quality. A stock split seems like a reasonable expectancy in view of the price level.

Ampex is engaged in a somewhat different sphere of electronics, concentrating in the field of magnetic tape recording equipment utilized in electronic computers, radio and television broadcasting and home music. The company's videotape recorder is employed by all the major TV networks. An instrumentation division produces laboratory, portable and airborne equipment for use in guided missile research, shock and vibration testing, machine tool control and other applications. Ampex is the exclusive distributor of a magnetic tape manufactured by Orr Industries which is being merged with Ampex on the basis of one share of Ampex for each 2.2 shares of Orr Industries publicly held. The thinking among recent buyers of Ampex was that this company deserves a price-earnings ratio as high as any stock on the boards. With a per share earnings expectancy of around $2.50 for the year 1959, the present price of around 105 represents an evaluation typical of price ratio in the electronic field. Several recent write-ups and recommendations by brokerage houses has helped to propel Ampex from its September low of 65.

Universal Match is an aggressively managed, expanding company whose corporate name derives from its principal business as the nation's largest producer of specialty match books, a facet which accounts for around 25% of overall volume. Another 15% of sales is contributed by the Armament Division which is involved in the research, development and production of guided missile launchers, inertial guidance systems and electronically controlled drones. This division also engages in atomic energy and biological studies connected with space exploration. Through its subsidiaries, Universal Match is an important factor in the manufacture of cigarette vending machines and other types of coin handling devices. This new dollar changer is deemed to have enormous potential in the expansion of the sale of various kinds of merchandise through vending machines. The recent flood of publicity on this machine has been largely responsible for the strong surge in the common stock. Universal Match, at its recent price of 76, is selling some 28 times its estimated 1959 earnings of $2.75 and 19 times its estimated 1960 earnings of around $4.00.

Polaroid needs no introduction as the manufacturer of the famous Picture-in-a-Minute Land Camera. The camera was first introduced in 1948 at which time the finished pictures had an unattractive brownish tint and a tendency to fade. The process has since been vastly improved, and the next step may be the introduction of color. Cameras, films and accessories account for *(Please turn to page 264)*



SCHENLEY INDUSTRIES AND NATIONAL DISTILLERS

By WILLIAM WHITING

► **A comparative study of the two leading giants**
► **Their operations and their profits**
► **Earnings-dividend position and outlook**

INTERESTING likenesses and differences between National Distillers & Chemical Corporation and Schenley Industries, Inc., may be observed in a detailed comparison of the two leading domestic distillers. Together the two dominate the industry in the production and marketing of alcoholic beverages. National has made far greater progress in diversification in the last decade, while Schenley has strengthened its position in distilling. Both are well situated to expand sales and earnings in 1960, which gives promise of providing a more favorable marketing environment.

Stocks of these distillers have fluctuated in a comparatively narrow range for a year after having experienced substantial price improvement in 1958 as a consequence of market recognition of favorable legislation enabling the industry to avoid serious economic losses threatened by regulations that virtually forced whiskey out of bond after aging for eight years. Elimination of the handicap eased financial burdens and tended to remove the threat of forced sales, somtimes below cost of production. Gains recorded last year have been consolidated in the last twelve months, and recent behavior of these two issues suggests that in a better market they may respond to favorable earnings prospects for the coming year.

Based on earnings, reported and in prospect for the near term, the two stocks appear to be reasonably priced. Schenley has been valued in the marketplace lately at about 12 times estimated earnings of $3 a share for the fiscal year ended August 31, and probably at a slightly lower times-earnings ratio for the first quarter of the 1960 fiscal year ending this month. Results are expected to run somewhat ahead of the $1.14 a share for the 1958 November quarter. National Distillers has been selling at 14 times estimated net profit of about $2.25 a share for 1959, but

the market has been placing an evaluation of 17 times on chemical company earnings and an average of 12 times on liquor companies.

National has been valued in the market at a level some 35 per cent above book value around $25 a share, while Schenley has been selling at a discount from book value of almost 20 per cent. This difference may be explained in part by the former's vigorous expansion in chemicals and the substantial capital investment in new chemical facilities which have been written down.

In the case of Schenley, on the other hand, valuations on whiskey inventories are regarded as modest considering the potential of appreciation in years ahead.

Both companies adopted conservative dividend policies about the time of the Korean crisis, when there appeared to be a threat of restrictions on distilling operations. Leading factors in the industry sought to accumulate stocks of aged whiskies. Since then cash distributions have been modest, although occasional stock payments have been used to supplement regular disbursements to stockholders. National increased quarterly payments in the last half of 1959 to 30 cents quarterly, placing the stock on a $1.20 annual basis. The rate had held at $1 annually for the previous six years.

Financial Differences

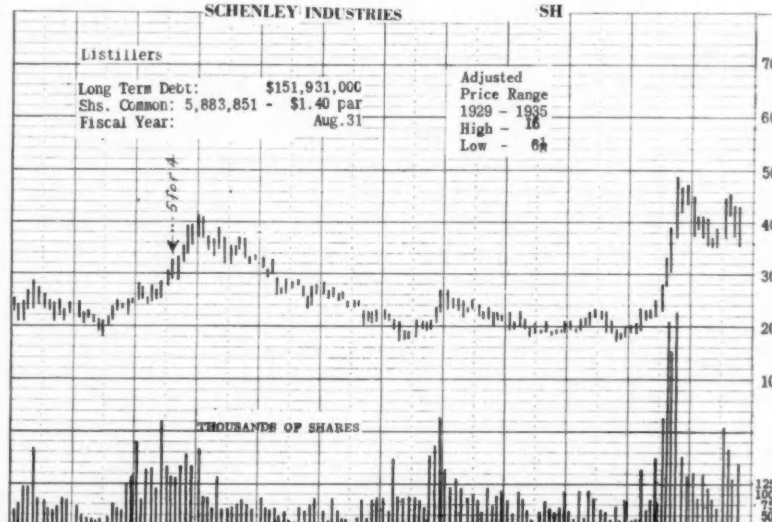
On the basis of financial figures, differences may be noted. National affords a more liberal current return on the investment, while Schenley is the more modestly appraised in relation to asset value. There is not a great deal of difference in funded indebtedness, the totals approximating $150 million in each case.

National has outstanding something in excess of $43 million in 4¼ per cent preferred. Common stock outstanding totals 5,883,851 shares in the case of Schenley and 10,360,284 for National. The latter has recorded the sharper sales increase chiefly as a result of the expansion in chemicals, National's sales volume (about half represented by excise taxes) may approximate $550 million for 1959, while Schenley's total appears to have topped $500 million and may have exceeded the 1950 record of $504.2 million.

In a move to liberalize distributions to stockholders and still maintain a strong cash position, Schenley management recently decided upon a program for supplementing cash dividends with distributions in a new convertible preferred stock. Under this arrangement management is in position to give recognition to earnings improvement without impairing working capital and without diluting the junior stock. Previously extras had been paid in common 2½ per cent in 1957, 5 per cent in 1958 and 20 per cent in 1959.

Stockholders have been asked at the annual meeting December 10 to authorize this new class of stock consisting of 4 million shares of Series A convertible preferred entitled to dividends at the rate of 50 cents annually. This new preferred, on which dividend payments would be made semi-annually, would be convertible into common for the first ten years.

* Plus stock dividend. ** Nine months



* Plus stock dividend. ** Nine months.

Balance Sheet Data

	National Distillers & Chemical 12/31/1958	Schenley Industries 8/31/1958
	(Millions)	
Long Term Debt (Stated Value)	$144.8	$106.9
Preferred Stock (Stated Value)	$ 43.6	None
No. of Common Shares Outstanding (000)	10,347	4,677
Common Stock and Surplus	$251.7	$256.8
Cash and Marketable Securities	$ 27.2	$ 21.9
Inventories, Net	$121.5	$218.9
Receivables, Net	$115.3	$139.4
Current Assets	$267.3	$380.3
Current Liabilities	$ 45.9	$ 35.7
Net Working Capital	$221.4	$344.6
Current Rato (C.A. to C.L.)	5.8	10.6
Net Property	$175.0	$ 37.9
Total Assets	$497.3	$440.0
Book Value Per Share	$ 24.92	$ 48.77
Estimated Earnings Per Share, 1959	$ 2.25	$ 3.00
Recent Price of Common Stock	32	37
Price Earnings Ratio	14.2	12.3
Indicated Current Dividend	$ 1.20	$ 1.00[1]
Dividend Yield	3.7 %	2.7%[1]

1—Plus 15% in stock.

Public Taste Swings to Straight Whiskies

Both companies are well suited to benefit from the return of public preference to straight whiskies and away from the blends that became so popular immediately after the repeal of the Volstead Act and during the recent war. Both have gained ground on their major Canadian competitors, Distillers-Seagrams and Hiram Walker - Gooderham & Worts, which have continued to feature blends.

Schenley's position in Kentucky straights, which have gained popular favor, probably is the strongest in the industry. Management has also bolstered its foreign position by expanding facilities of its Scottish subsidiary, Seager-Evans, so as to enlarge its supply of Scotch for distribution to the American market.

Trend of Schenley Acquisitions

Acquisition of Park & Tilford almost two years ago enabled Schenley to solidify its competitive position in principal metropolitan markets. Management has placed increased promotional effort on marketing wines this year and is believed to have gained a larger share of the market. California brands include Roma and Cresta Blanca. An upward trend in wine consumption has encouraged the outlook for expanding volume in this direction. Diversification in non-alcoholic lines has been rather limited. The company is a relatively small producer of pharmaceuticals through its Schenlab division and manufactures farm feeds from what formerly was waste material, thus adding new income to offset production costs.

Through the sale of Blatz Brewing Company more than a year ago Schenley withdrew from the brewery business. Disposal of the subsidiary to Pabst for $11 million in cash plus $3.5 million in Pabst 5 per cent debentures and *(Please turn to page 264)*

The conversion privilege for the first seven years would be at the rate of four shares of preferred for each share of common. Thereafter conversion would call for a lesser number of shares.

Since the common has been selling recently around 36, the conversion privilege would have value if the new senior shares should be available on the market at $9 a share or less. Any strength in the common would tend to add attraction to the new issue, which would afford a yield of 5 per cent if selling at 10. Management indicated that if stockholders approved the new preferred, directors would probably authorize a payment of 8 shares of convertible preferred for each 100 shares of common in addition to the usual cash dividend, which has been paid at the rate of 25 cents quarterly.

Long-Term Income Data

	National Distillers and Chemical					Schenley Industries				
	Net Sales	Deprec. and Depletion	Net Income	Net Profit Margin	Net Earnings Per Share	Net Sales	Deprec. and Amort.	Net Income	Net Profit Margin	Net Earnings Per Share
1959 (1st 9 months)	$416.1	$N.A.	$18.2	4.3%	$1.63	$ N.A.	N.A.	$12.0	N.A.%	$2.30
1958	524.3	11.3	20.1	3.8	1.76	406.4	3.1	16.7	7.1	2.17
1957	538.5	10.0	23.0	4.2	2.05	469.9	3.0	10.9	5.7	2.01
1956	543.1	8.7	20.1	3.7	2.11	404.1	4.3	8.4	5.3	1.58
1955	500.2	8.1	15.5	2.9	1.60	411.7	4.7	6.1	3.8	1.15
1954	487.3	7.9	13.7	2.6	1.38	409.9	4.5	3.8	2.2	.71
1953	488.7	5.2	12.1	2.4	1.18	421.3	4.8	6.6	4.0	1.25
1952	470.1	4.5	11.7	2.5	1.13	426.4	4.9	12.0	6.2	2.26
1951	466.8	3.6	25.0	5.3	2.86	450.5	4.7	22.2	2.8	4.18
1950	398.6	2.4	27.2	6.8	3.45	504.2	4.7	36.9	4.9	6.94
1949	362.4	2.5	24.1	6.6	3.03	461.8	5.3	24.2	7.3	4.40

N.A.—Not available.

FOR PROFIT AND INCOME

Tax-Switching

The consistent record of year-end market gains — as measured from December lows to the early January highs — is well known. Less so is the quite different November 15-December 31 record. In the great majority of years, the industrial average's lows during the final six weeks have been under the best levels seen in the first half of November. In few years have the highs of this period been significantly above the November 1-15 highs. The explanation can only be late November and December selling for tax-saving purposes. Fortunately there is more tax-switching than liquidation in over-all holdings of sellers. Otherwise the record for the period would be much worse. If there were any big amount of tax-loss selling, without immediate switch purchases, many stocks would fall out of bed during late November and December.

Example

The oil group as a whole could recede further under tax-loss taking by sellers electing to shift funds to other industries or to increase liquid reserves; but it will not nose dive. Especially in the case of leading oils, switching operations will predominate. Some will sell Jersey and switch to Standard Oil of California. Others will sell the latter and buy the former. Similar tax-loss-switching moves will be made throughout the oil list, tending to cancel out in over-all market influence. If you have sizable paper losses on any oils, and wish to keep representation in the industry, do not overlook the opportunity to effect tax savings by selling and switching to an oil or oils of at least equal quality.

Improvement

If you are exceptionally smart or lucky, you have no paper losses and your portfolio needs no improvement. Otherwise, take a good look at your holdings and do some tax figuring. Within various stock groups are possibilities for both tax-saving establishment of losses and improvement of holdings. Some examples: in steel, from marginal Sharon Steel to Jones & Laughlin; in

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Admiral Corp.	9 mos. Sept. 30	$ .99	$ .40
Consolidated Cigar Corp.	Quar. Sept. 26	1.24	.92
Crane Corp.	Quar. Sept. 30	1.23	.08
Wagner Electric	Quar. Sept. 30	1.56	1.23
American Potash & Chemical	Quar. Sept. 30	.53	.40
Commercial Solvents	Quar. Sept. 30	.33	.11
Foster Wheeler Corp.	9 mos. Sept. 30	7.15	3.14
Cluett, Peabody & Co.	Quar. Sept. 30	1.14	.60
Electric Auto-Lite Co.	Quar. Sept. 30	.31	.12
Ekco Products	Quar. Sept. 30	1.01	.65

food-store chains, from unappealing ACF-Wrigley to Grand Union; in machinery, from Bucyrus-Erie, with rather drab prospects, to Link-Belt; in television-electronics, from Emerson Radio, in relatively weak competitive position, to stronger and more diversified Radio Corp.; in paper, from Sutherland Paper, without significant gain in share earnings since 1950, to better-situated Union Bag-Camp Paper. These are merely a few examples for illustration. Within the groups, as well as in movement out of unpromising groups, there are numerous possibilities for portfolio improvement, combined with tax savings.

Group Variations

At this writing, stock groups performing better than the market — for how long nobody can say — are air transport, auto accessories, baking, food brands, department stores, motion pictures, paper, television-electronics and tires. On the lagging side are aluminum, coal, coppers, electrical equipment, farm equipment, office machines, oils, railroads, rail equipments, steels and sugar.

Strong Stocks

A partial list of the stocks reflecting better-than-average demand at this time includes: American News, Armour, Beech Aircraft, Consolidation Coal, Continental Steel, Crane, Eastman Kodak, General Foods, International Paper, Marshall Field, Morrell, McKesson & Robbins, Penney, Polaroid, Reynolds Tobacco, Ritter and Vick Chemical.

Weak

Stocks showing downward tendencies at this writing include: American Agricultural Chemical, American Potash, American Sugar, Atchison, Canadian Pacific, Celotex, Chemetron, Combustion Engineering, Columbia Pictures, Cooper Bessemer, Fenestra, General Bronze, Joy Mfg., Kresge, Industrial Rayon, Northern Pacific, Union Tank Car, Texas Gulf Sulphur, Underwood, Vanadium Corp., Vulcan Materials, Walworth and Worthington Corp.

Aluminum

When aluminum equities were higher, we expressed the unpopular view here that they were over-valued. Now production has been cut back. With costs higher, 1959 earnings will be under earlier hopes in most cases. Particular comment was made on over-valuation of Kaiser Aluminum, then off from 1959 top of 65 to 56, in these pages in our September 26 issue. Results for nine months indicate full-year earnings well under 1958's $1.43 a share. Now around 49, the stock still appears too high.

Another Look

Armstrong Cork was recommended here in our August 29 issue at 42½, or roughly 12 times the 1959 share earnings of $3.50-$3.60 then forecast. Now at 44, the stock has done little. Meanwhile, a 61% profit gain in the first nine months to $2.94 a share — exceeding any previous *full-year* total — suggests 1959 net around $4.00 a share or well above the earlier estimate. On this basis, the stock is priced around 11 times earnings. Why is it not in stronger demand? Perhaps because of a mistaken consensus that later profits will be cut considerably by shrinkage in home starts. Actually well under a fifth of sales depend on new housing activity. If 1960 home starts were off 20% in dollar value — it probably will be considerably less than that — and if there were no offsets for Armstrong, sales would be off less than 4%. On the contrary, 1960 volume and earnings should gain further, bringing another boost in dividends, now at $1.60 total. The offsets for reduced home starts are: gains in home replacement demand for hard-surface floor coverings; the uptrend in sales of floor coverings and other building products in non-residential markets; and improved demand for industrial and packaging products, which together provide over a third of sales. Sound stocks are unlikely to remain under-valued indefinitely. This one is under-valued. We repeat the buying recommendation.

Timken

The stock of Timken Roller Bearing, leader in its field, was recommended here at 57 in our August 15 issue on the basis of 1959 profit then estimated around $5.00 a share, against 1958's $2.10, with the indicated valuation about 11.4 times earnings. Timken has no steel shortage. (It makes and markets high-grade steel). But some of its automotive and other customers are short of steel. Hence, Timken's fourth-quarter profit will be subnormal; but 1959 net might still be close to $5.00 a share, in view of the sharp nine-months gain to $4.23. If not, any lag would no doubt be made up in 1960, with net of as much as $6.00 a share possible. The previous $2.00 dividend rate was raised recently to $2.40, plus a 30-cent extra. Now at 61½, the stock remains moderately priced, and should work higher. Its quality is above-average; and the price-earnings ratio — whether figured on possible 1959 results or average 1959-1960 profits — is considerably below average for issues of similar quality.

Splits

Aimed at increasing investment or speculative interest, there have been additional stock-split moves in recent weeks. Examples include American Steel Foundries, Allied Chemical, Cessna Aircraft, General Outdoor Advertising, Goodyear Tire, Shell Oil, Stewart-Warner and Westinghouse Electric, among others.

(Please turn to page 259)

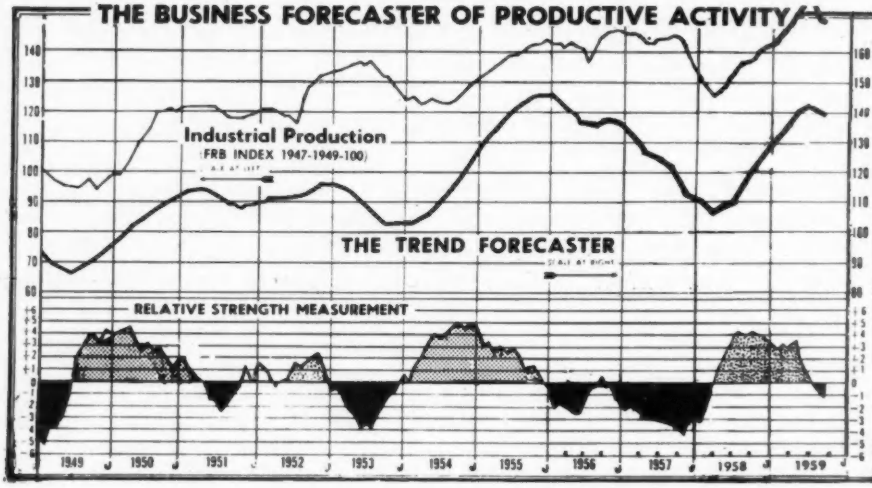
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
American Bakeries	12 weeks Oct. 3	$ .59	$ .65
Continental Baking	13 weeks Sept. 25	1.02	1.22
Moore-McCormack Lines	Quarter Sept. 30	.09	.33
Republic Aviation Corp.	9 mos. Sept. 30	1.79	2.66
White (S.S.) Dental Mfg.	9 mos. Sept. 30	2.38	4.32
Denver & Rio Grande W. R. R.	9 mos. Sept. 30	.95	1.07
Harbison-Walker Refract.	Quar. Sept. 30	.37	.76
Lehigh Coal & Navigation	Quar. Sept. 30	.18	.28
Chance Vought Aircraft	Quar. Sept. 30	1.02	2.09
Kennecott Copper	Quar. Sept. 30	.99	1.34

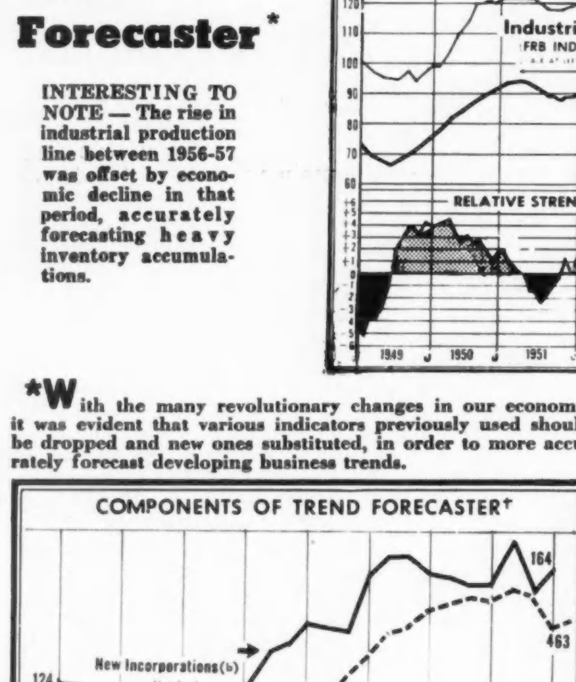
the Business

Business Trend Forecaster *

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.



***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

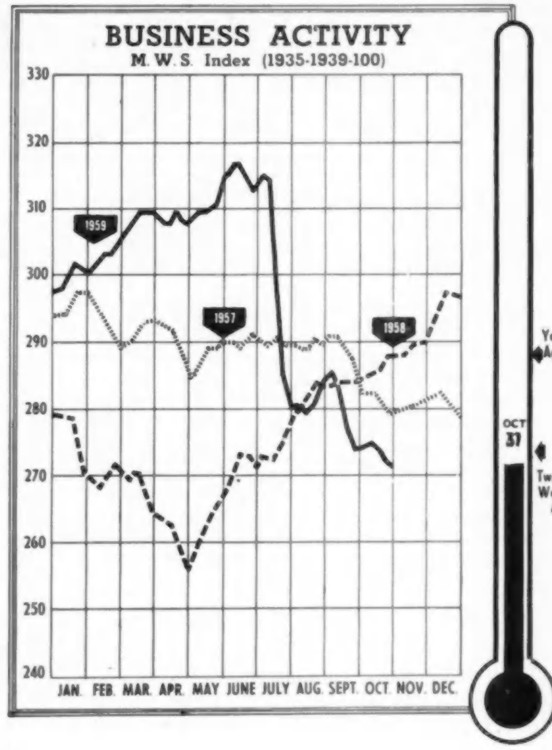
We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

As the year entered the fourth quarter, declines continued to dominate the component series entering into the Trend Forecaster. The latest figures for hours worked, housing starts and nonresidential construction all pointed moderately downward. Durables orders rose somewhat in September, but were far below their prestrike peak. New incorporations and business failures were behaving erratically, but exhibiting a slight downward trend. Stock prices rose in October, but were still considerably below their July peak. Only raw materials prices were continuing the strength apparent earlier in the year.

The Relative Strength Measurement, which summarizes the direction of movement of all eight series, turned negative at the start of the third quarter, and had fallen to a level of minus 1.3 by September. However, the Measurement has been artificially depressed by the steel strike which has lowered such indicators as hours worked, durable orders and even construction contracts. The Relative Strength Measure will doubtless recover when durables production returns to normal.

Analyst



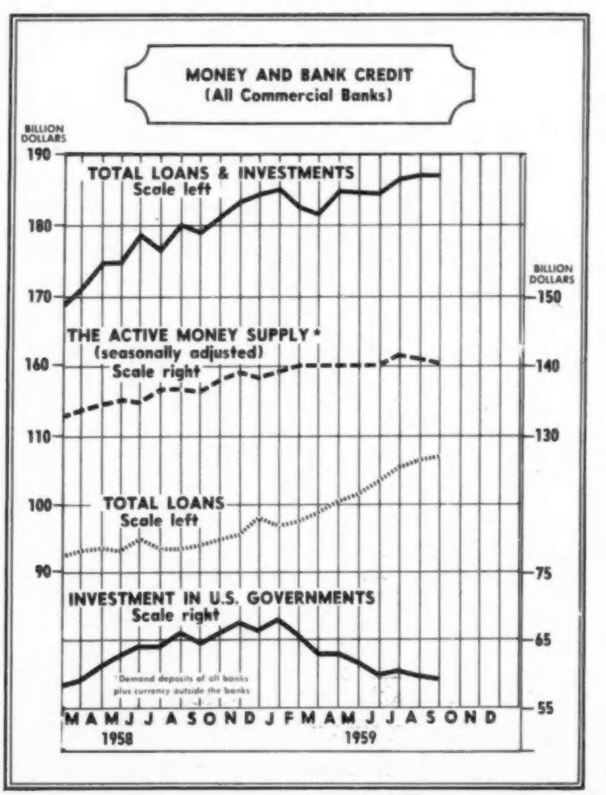
CONCLUSIONS IN BRIEF

PRODUCTION — still hampered by steel shortages, but recovery now lies ahead as steel supplies begin to flow again. Look for an industrial production index over 150 in December, and back to prestrike peak of 155 in January, assuming no further losses of steel.

TRADE — weakened by the prolonged steel strike, has nevertheless stood up well, and will recover strongly into Christmas. Acceptance of new automobile models favorable, but sales hindered by low dealer stocks in most lines. Soft-goods volume to set a Christmas record.

MONEY & CREDIT — slight ease has been perceptible in short-term market, as draining of steel inventories has increased supply of funds somewhat. Outlook; little further change for about two months, then marked further tightening as demand for funds swells.

COMMODITIES — general prices continue largely unchanged, although raw commodities have strengthened somwhat since late October. Outlook: mild uptrend appearing over next two months in general wholesale price level, and running into 1960.



WITH the termination, at least temporarily, of the steel strike, observers of business conditions are about to test the major hypothesis advanced during the strike; namely, that once steel starts to flow again the economy will return to the uptrend characterizing business conditions before the strike. As of now, this remains the best hypothesis on which to hinge a business forecast; difficult as it is to accept on its face, the fact seems to be that the strike has delayed, deferred, deterred, hindered and otherwise disrupted activity, without causing any demands to be lost irrevocably. By all indications, business is now in for a rapid advance that will carry it back to where it was in June, 1959, and then to substantially above that level—on forward buying induced by strike uncertainties in various industries.

In fact, the danger facing business as a result of the strike does not seem to be a shortage of demand, but a clear and perhaps dangerous excess of demand appearing in markets over a fairly short and concentrated period, with perhaps serious inflationary and speculative components. There are few experienced observers of business trends who do not now expect such an upsurge of activity as to induce rising prices in markets that only a few months ago seemed anything but buoyant in terms of price behavior. And rising prices tend to make monetary policy a very dull tool indeed; it takes only the most fractional of price rises to induce inventory accumulation, even at very high levels of interest rates under existing conditions.

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Sept.	148	149	137
Durable Goods Mfr.	1947-'9-100	Sept.	158	159	145
Nondurable Goods Mfr.	1947-'9-100	Sept.	145	146	133
Mining	1947-'9-100	Sept.	116	117	123
RETAIL SALES*	$ Billions	Sept.	17.8	18.1	16.6
Durable Goods	$ Billions	Sept.	5.8	6.1	5.1
Nondurable Goods	$ Billions	Sept.	11.9	12.0	11.5
Dep't Store Sales	1947-'9-100	Sept.	146	149	135
MANUFACTURERS'					
New Orders—Total*	$ Billions	Sept.	30.6	29.0	27.0
Durable Goods	$ Billions	Sept.	15.0	14.0	12.9
Nondurable Goods	$ Billions	Sept.	15.6	15.0	14.2
Shipments*	$ Billions	Sept.	29.6	29.2	26.8
Durable Goods	$ Billions	Sept.	14.1	14.0	12.7
Nondurable Goods	$ Billions	Sept.	15.5	15.2	14.1
BUSINESS INVENTORIES, END MO.*	$ Billions	Sept.	89.1	89.5	85.0
Manufacturers'	$ Billions	Sept.	51.8	52.1	49.3
Wholesalers'	$ Billions	Sept.	12.5	12.6	12.1
Retailers'	$ Billions	Sept.	24.8	24.8	23.7
Dept. Store Stocks	1947-'9-100	Aug.	160	159	148
CONSTRUCTION TOTAL	$ Billions	Sept.	5.1	5.3	4.7
Private	$ Billions	Sept.	3.5	3.6	3.2
Residential	$ Billions	Sept.	2.1	2.1	1.7
All Other	$ Billions	Sept.	1.4	1.5	1.5
Housing Starts*—a	Thousands	Sept.	1325	1340	1255
Contract Awards, Residential—b	$ Millions	Sept.	1466	1551	1460
All Other—b	$ Millions	Sept.	1592	1532	1756
EMPLOYMENT					
Total Civilian	Millions	Sept.	66.3	67.2	64.6
Non-Farm *	Millions	Sept.	52.5	52.1	51.2
Government *	Millions	Sept.	8.1	7.8	7.9
Trade *	Millions	Sept.	11.5	11.4	11 2
Factory *	Millions	Sept.	12.3	12.2	11 9
Hours Worked	Hours	Sept.	40.4	40.5	39.9
Hourly Earnings	Dollars	Sept.	2.21	2.19	2.14
Weekly Earnings	Dollars	Sept.	89.28	88.70	88.39
PERSONAL INCOME*	$ Billions	Sept.	380	380	364
Wages & Salaries	$ Billions	Sept.	258	259	243
Proprietors' Incomes	$ Billions	Sept.	56	57	59
Interest & Dividends	$ Billions	Sept.	37	36	33
Transfer Payments	$ Billions	Sept.	27	27	27
Farm Income	$ Billions	Sept.	13	14	18
CONSUMER PRICES	1947-'9-100	Sept.	125.2	124.8	123.7
Food	1947-'9-100	Sept.	118.7	118.3	120.3
Clothing	1947-'9-100	Sept.	109.0	108.0	107.1
Housing	1947-'9-100	Sept.	129.7	129.3	127.9
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Sept.	112.1	112.9	108.9
Bank Debits*—g	$ Billions	Sept.	95.4	91.0	87.3
Business Loans Outstanding—c	$ Billions	Sept.	30.3	29.9	N.A.
Instalment Credit Extended*	$ Billions	Sept.	4.1	4.1	3.3
Instalment Credit Repaid*	$ Billions	Sept.	3.6	3.6	3.4
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Sept.	8.5	5.7	7.2
Budget Expenditures	$ Billions	Sept.	6.4	6.3	6.6
Defense Expenditures	$ Billions	Sept.	3.8	3.7	3.8
Surplus (Def) cum from 7/1	$ Billions	Sept.	(1.8)	(3.9)	(4.5)

PRESENT POSITION AND OUTLOOK

This fact tends to frame what now seems to be the basic issue of 1960. The steel strike will induce rising prices and speculative activity at a time when the Federal Reserve, as well as the Administration, are unalterably dedicated to arresting inflation, and the result of this head-on collision is likely to be the severest money market conditions in over thirty years. Implied in this violent contest between a speculaive boom and restrictive monetary policy are extremely high interest rates across the board, and possibly a spectacular drying up of funds in those parts of the market susceptible to high interest rates; namely, private residential building and state-and-local spending for public works. Both of these areas bear on the construction market; it is not too much to say that unless developments take an unforeseen turn, the outlook for the construction industry and its suppliers has seriously worsened in the course of the steel strike.

* * *

SEPTEMBER FIGURES — they showed suspiciously little effect of the steel strike outside the steel industry itself. Sales volume (after seasonal adjustment) improved in most industries, with particularly sharp improvement in soft-goods manufacturing lines, and new orders rose to a level not very much below the record volumes set in the months preceding the strike. The industrial production index declined only fractionally; unemployment and employment changed little; and while retail sales fell below the August rate, at least part of the decline was owing to unseasonably warm weather. For most of these statistics, however, the October figures are likely to show a somewhat different story. Better weather and new automobile models evidently improved the rate of retail sales. But unemployment doubtless rose and employment fell; the production index certainly fell more than the one-point decline of September, and manufacturing sales and orders were evidently off notably. By mid-October, the steel strike had finally worked its way into the fabric of steel-consuming industries, although it may be

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1959 Quarter III	1959 Quarter II	1959 Quarter I	1958 Quarter III
GROSS NATIONAL PRODUCT	481.0	484.5	470.2	444.0
Personal Consumption	313.5	311.2	303.9	294.4
Private Domestic Invest.	69.0	77.5	69.8	54.2
Net Exports	—0.5	—1.8	—0.9	1.6
Government Purchases	99.0	97.7	97.4	93.8
Federal	54.0	53.9	53.8	53.6
State & Local	45.0	43.8	43.8	40.8
PERSONAL INCOME	381.0	381.1	371.8	336.4
Tax & Nontax Payments	45.8	45.8	44.4	42.9
Disposable Income	335.2	335.3	327.4	320.4
Consumption Expenditures	313.5	311.2	303.9	294.4
Personal Saving—d	21.7	24.1	23.5	26.0
CORPORATE PRE-TAX PROFITS		52.6	46.5	38.3
Corporate Taxes		25.6	22.6	18.8
Corporate Net Profit		27.0	23.8	19.5
Dividend Payments		13.0	12.8	12.6
Retained Earnings		14.0	11.0	6.9
PLANT & EQUIPMENT OUTLAYS	34.3	32.5	30.6	29.6

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Oct. 31	271.0	271.7	287.4
MWS Index—per capita*	1935-'9-100	Oct. 31	198.2	198.7	213.8
Steel Production	% of Capacity	Nov. 7	13.0	13.1	74.5
Auto and Truck Production	Thousands	Nov. 7	87	124	158
Paperboard Production	Thousand Tons	Oct. 31	332	318	318
Paperboard New Orders	Thousand Tons	Oct. 31	328	292	324
Electric Power Output*	1947-'49-100	Oct. 31	250.2	248.3	238.5
Freight Carloadings	Thousand Cars	Oct. 31	588	607	674
Engineerings Constr. Awards	$ Millions	Nov. 2	252	319	221
Department Store Sales	1947-'9-100	Oct. 31	145	150	136
Demand Deposits—c	$ Billions	Oct. 28	61.2	60.8	57.3
Business Failures—s	Number	Oct. 29	273	250	299

PRESENT POSITION AND OUTLOOK

several months before the full extent of the damage will be reflected in detailed statistics.

* * *

INSTALMENT CREDIT — in September, as total personal income eased a little further, the rate of net new debt formation via instalment paper continued at close to a $6 billion annual rate. This is higher than the peak rate of increase experienced during the automobile boom of 1955. The rate of debt repayment also continued to advance during the third quarter, and for the quarter as a whole evidently reached not only a dollar record, but a record in terms of percentage of personal income. This is one of the basic dimensions of 1960: how much farther and faster can instalment debt go in 1960, and can it go far enough and fast enough to support the seven-million automotive year now widely forecast by the automobile industry? Best current guess: it can go far enough and fast enough to provide a bumper 1960 market for automobiles and appliances, but the economy may pay a sizeable penalty in 1961 for overextension of debt in 1960.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisers. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1959 Range High	1959 Range Low	1959 Oct. 30	1959 Nov. 6
300 Combined Average	492.4	436.9	468.4	469.4
4 Agricultural Implements	492.4	356.2	460.9	460.9
3 Air Cond. ('53 Cl.—100)	137.2	110.5	111.7	115.3
10 Aircraft ('27 Cl.—100)	1375.1	1019.1	1043.6	1068.2
7 Airlines ('27 Cl.—100)	1429.4	1079.6	1179.5	1179.5
4 Aluminum ('53 Cl.—100)	594.5	392.0	473.9	486.8
5 Amusements	252.6	200.5	235.2	239.1
6 Automobile Accessories	525.8	413.4	505.8	505.8
6 Automobiles	152.0	93.7	146.3	152.0H
4 Baking ('26 Cl.—100)	41.3	38.7	39.8	40.2
4 Business Machines	1395.5	1173.8	1265.1	1252.0
6 Chemicals	835.5	692.9	774.4	794.8
4 Coal Mining	37.8	28.1	34.8	35.9
4 Communications	205.4	164.6	198.9	205.4H
9 Construction	178.9	155.6	169.6	169.6
7 Containers	1142.6	988.8	1010.8	1021.8
6 Copper Mining	344.6	280.7	322.4	327.9
2 Dairy Products	163.1	138.8	156.0	154.5
6 Department Stores	141.5	119.1	139.1	141.5
5 Drugs-Eth. ('53 Cl.—100)	475.4	379.5	431.5	435.5
6 Elec. Eqp. ('53 Cl.—100)	335.3	268.8	332.6	327.3
3 Finance Companies	769.7	661.8	690.5	676.1
5 Food Brands	470.0	406.3	438.1	438.1
3 Food Stores	279.6	244.4	249.8	255.2

(Nov. 14, 1936 Cl.—100)	High	Low	Oct. 30	Nov. 6
100 High Priced Stocks	306.7	268.4	292.0	291.1
100 Low Priced Stocks	665.9	585.4	631.8	634.6
5 Gold Mining	996.6	853.0	971.3	971.3
4 Investment Trust	190.6	167.0	168.8	170.6
3 Liquor ('27 Cl.—100)	1624.8	1429.2	1489.4	1504.4
8 Machinery	563.2	452.4	523.3	501.2
3 Mail Order	414.0	253.1	409.1	409.1
4 Meat Packing	267.2	204.4	267.2	267.2
5 Mtl. Fabr. ('53 Cl.—100)	211.2	181.3	193.6	193.6
9 Metals, Miscellaneous	409.6	343.8	365.7	369.4
4 Paper	1287.1	1170.1	1252.0	1287.1
22 Petroleum	885.5	710.1	735.2	726.8
21 Public Utilities	365.4	334.9	341.7	341.7
6 Railroad Equipment	104.1	86.9	98.0	96.3
20 Railroads	78.2	68.1	68.1	68.1
3 Soft Drinks	709.3	599.8	686.3	697.8
12 Steel & Iron	476.4	392.5	461.1	457.3
4 Sugar	144.7	91.3	91.3	92.6
2 Sulphur	863.3	603.6	603.6	611.2
11 TV & Electron. ('27 Cl.—100)	107.1	65.6	98.1	95.4
5 Textiles	259.6	176.6	217.2	222.5
3 Tires & Rubber	281.8	216.1	258.5	260.6
5 Tobacco	194.9	172.9	194.9	193.2
3 Variety Stores	363.9	331.4	347.6	347.6
20 Unclassif'd (49 Cl.—100)	284.9	239.8	261.1	261.1

H — New High for 1959.

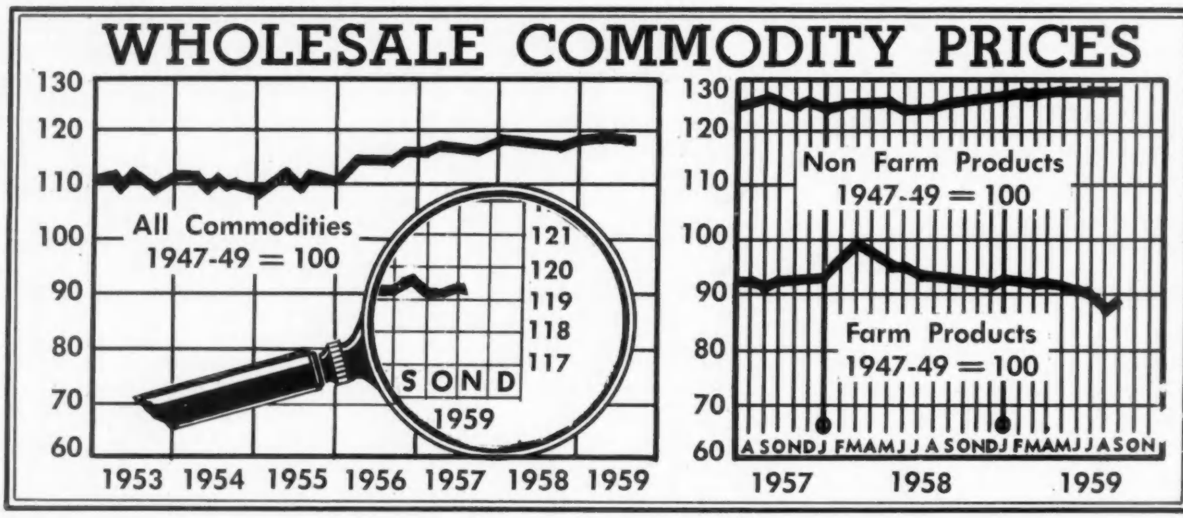
Trend of Commodities

SPOT MARKETS—Sensitive commodities were generally lower in the two weeks ending November 6 and the BLS daily index of 22 such commodities lost 0.6%, to close at 86.0. All major components of the index, except textiles, were lower. Raw industrial materials were mixed, although losses outweighed gains. Hides, tallow, tin and zinc all declined, while burlap, copper scrap and rubber improved.

Among the rank and file of commodities, meanwhile, changes were mostly negligible. The BLS comprehensive weekly wholesale price index rose 0.1% in the two weeks ending November 3, with both the farm and non-farm price components advancing slightly. Changes among broad price indicators have been very slight during most of this year, indicating that the monetary authorities have succeeded thus far in containing inflationary pressures.

FUTURES MARKETS—Sharply divergent trends featured futures markets in the two weeks ending November 6, with some commodities (such as soy beans and rubber) spurting higher, while others (hides for example), retreating rapidly. In general, however, more commodities gained than lost ground. The Dow-Jones Commodity Futures Index was little changed, adding 0.11 points during the period.

Wheat futures were moderately lower and the March option lost one cent in the period under review. With cash prices of most grades moving above effective loan levels, producers were inclined to offer grain more freely. Other news was just about a "stand-off", with reports of poor growing conditions in Europe and Canada being offset by estimates that our exports may fall below previous expectations.



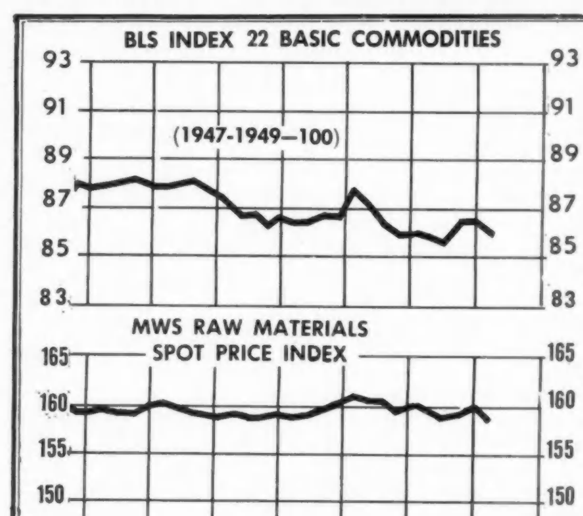
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Nov. 3	119.2	119.1	119.2	60.2
Farm Products	Nov. 3	86.6	86.1	92.1	51.0
Non-Farm Products	Nov. 3	128.6	128.5	126.8	67.0
22 Sensitive Commodities	Nov. 6	86.0	86.5	88.3	53.0
9 Foods	Nov. 6	74.7	75.2	83.8	46.5
13 Raw Ind'l. Materials	Nov. 6	94.5	95.2	91.5	58.3
5 Metals	Nov. 6	104.4	104.5	100.5	54.6
4 Textiles	Nov. 6	79.2	79.0	78.4	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1959	1958	1953	1951	1941
High of Year	161.4	154.1	162.2	215.4	85.7
Low of Year	152.1	146.5	147.9	176.4	74.3
Close of Year		152.1	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1959	1958	1953	1951	1941
High of Year	152.7	159.0	166.8	215.4	84.6
Low of Year	144.2	147.2	153.8	174.8	55.5
Close of Year		147.6	166.5	189.4	84.1



Answers to Inquiries...

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities at* reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.**
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

Archer-Daniels-Midland Co.

I am a subscriber to your Magazine and would appreciate receiving recent information on Archer-Daniels-Midland Co.

R. N., Rochester, N. Y.

Archer-Daniels-Midland Co. reported net profit for the fiscal year ended June 30, 1959 of $5,-434,386, equal to $3.38 a share, compared with $3,903,622, or $2.45 a share, a year ago.

Sales and operating income totaled $239,370,108 against $225,811,912 for the 1957-58 period. Nearly every phase of the company's diversified operations shared in the sales and earnings gains.

Earnings turned down, however, in the first fiscal quarter ended September 30th 1959. The company reported net income of $857,503 equal to $.53 a share compared with $1,618,181 and $1.01 in the in the 1958 period.

The soybean, linseed, flour, and grain operations returned better profits than a year ago and noteworthy gains also were reported in the sales to the chemical, protective coatings and taconite industries.

Four quarterly dividends of 50 cents a share, totalling $3,206,-123 and equal to 50% of earnings, were paid during the year.

Net worth reached a new high of $98,698,383 or $61.48 a share, at year-end. Working capital increased to $50,977,812, or $31.75 a share.

With no bank loans at the close of the fiscal year, ADM remained one of the nation's few major corporations without any bank debts, loans, or preferred stock.

A leading processor and merchandiser of agricultural commodities, ADM operates 141 plants, elevators and mines in the U.S. and Canada. Its more than 1,000 standard products are used by every segment of American industry.

The company introduced a number of new products last year, ranging from chemicals to protective coating vehicles to food products.

New industrial cereals, produced at new facilities in St. Joseph, Mo., have boosted sales of those products to the building material, mineral processing, paper and explosive industries. The company is also expanding operations abroad.

The outlook over coming months continues favorable.

Smith-Corona Marchant

"I am again subscribing to your magazine and I would appreciate some information in regard to Smith-Corona Marchant as to recent earnings, etc."

K. A., Valley Forge, Pa.

Smith-Corona Marchant is a prominent office equipment manufacturer. The company represents the merger in mid-1958, of Smith-Corona, Inc. and Marchant Calculators Inc. Competition in the industry is exceptionally keen.

Net sales increased to $90,411,-280 in the fiscal year which ended June 30, 1959 compared with the previous year's total of $87,145,-774.

Net earnings decreased to $551,-396, equal to 30 cents a share based on the 1,860,924 shares outstanding, compared with $2,244,-258, or $1.38 a share based on the 1,630,764 shares outstanding the year previous.

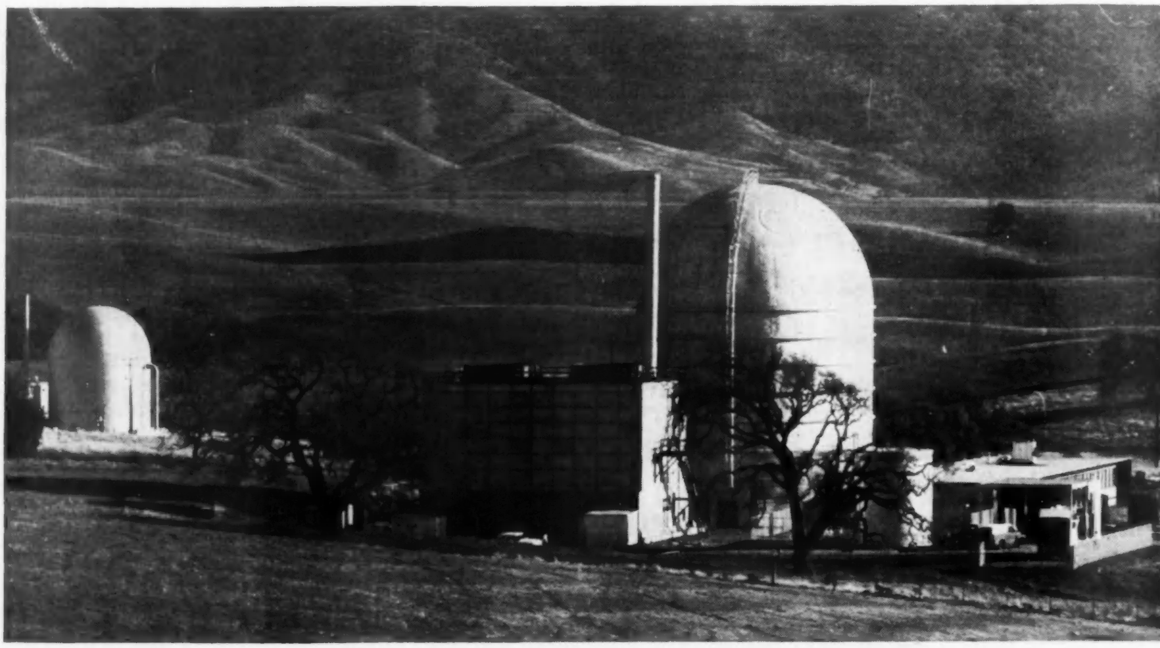
The poor showing continued in the fiscal quarter ended September 30. On sales of $22,137,220 the company earned net income of $148,696 equal to 8 cents a share. In the similar 1958 quarter, on sales of $20,468,040, earnings of $339,553, or 21 cents a share were reported.

The company's building programs, including its accelerated research and engineering program added substantially to the company's costs, and together with other factors resulted in the decline of earnings. These additional factors included: (1) the business recession which had an extended influence on the entire office machine industry, (2.) unusually intense competition in the portable typewriter industry which resulted in a decline of profit margins to the lowest level in years, and (3.) a charge against earnings covering all of the costs of a joint development program undertaken with another company involving the development of a special product.

Research and engineering expenditures totalled $4.3 million last year compared with $2.8 million the year previous, accounting for a third of the difference between last year's earnings and the prior year's. According to the chief executive of the company

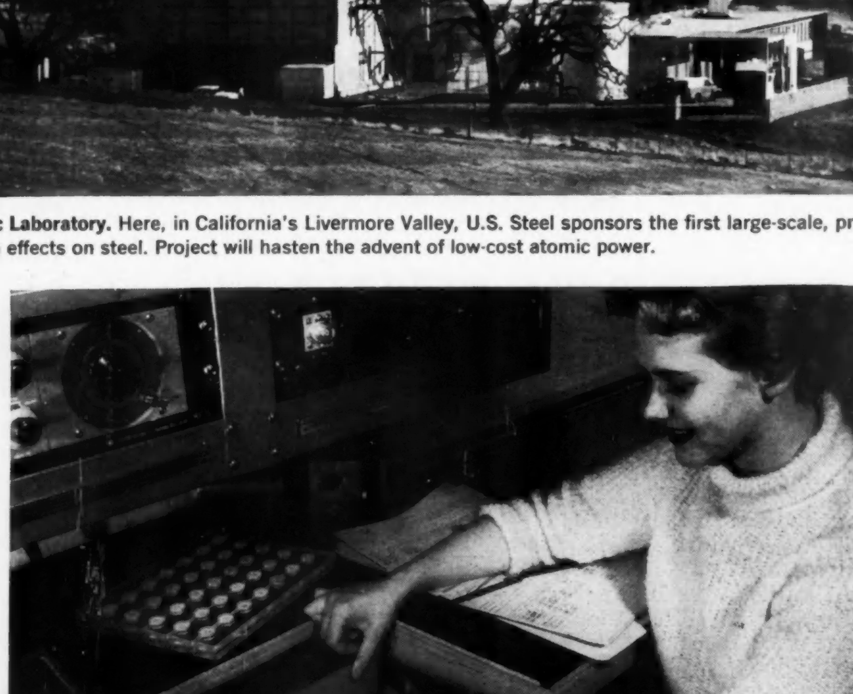
(Please turn to page 268)

Soon...Cheaper atomic power



General Electric Vallecitos Atomic Laboratory. Here, in California's Livermore Valley, U.S. Steel sponsors the first large-scale, privately financed study of radiation effects on steel. Project will hasten the advent of low-cost atomic power.

This G.E. technician adds a touch of glamour to the serious business of making a radiation count on foil samples removed from General Electric Test Reactor. She works in a mobile lab made available to the project.



with USS Atom Age Steels

BEFORE ATOMIC POWER can light our cities or run our industries efficiently, the cost of building and operating commercial atomic reactors must be reduced. The two big problems: high cost of nuclear fuel, and the need for better and less costly materials of construction.

Firsthand information on the effects of radiation on steel has not been easy to come by. The start-up of the General Electric Test Reactor, near Pleasanton, California, and the Westinghouse Testing Reactor near Pittsburgh has enabled U.S. Steel to launch the first large-scale private investigation of irradiated steels. These explorations will be carried out in private test reactors, wholly financed with private capital.

Today, U.S. Steel has scientists working full-time at Westinghouse and General Electric Atomic Laboratories; extensive applied research in nuclear steels is also being carried on at U.S. Steel's Monroeville Research Center.

From these tests will come new and improved atom age steels: stronger, more corrosion-resistant steels, steels that will hasten the advent of commercial nuclear power. The full effects of this vast U.S. Steel research program may not be felt for two, five, or even ten years. But, cheaper atomic power is on its way . . . because American industries like U.S. Steel are contributing to the research. United States Steel, 525 William Penn Place, Pittsburgh 30, Pa.

USS is a registered trademark

USS United States Steel

Clayton McDole, U.S. Steel scientist (second from left) supervises the removal of irradiated foil samples from General Electric Test Reactor. Information obtained provided a solid flux data foundation for the irradiation research of special reactor steels.

Tax-Free Dividends

(Continued from page 241)

of 1954 some recognition was given for the first time to the stockholder's right to some relief from the double taxation of his income (i.e., the 52% corporate tax plus the tax on dividends received). Under the heading "Dividends Received Credit," the first $50 of dividends received by an individual from a taxable domestic corporation is now excluded from the individual's taxable income. The remainder is includible in the income on which the tax is computed, but the law allows a credit against the tax on such dividends. This credit is 4% of the amount of taxable dividends received, but is limited to 4% of the taxable income.

For corporate taxpayers there are several special provisions of the Federal income tax law affecting the rate of taxation on dividend income. The most important of these provisions is the dividends received credit. For corporations which own stock this credit amounts to 85% of all dividends received from a domestic corporation. *This credit tends to make stock holdings more desirable to corporate investors than taxable bonds since the effective tax rate on the dividend income is only 7.8% (52% on 15%) compared to the 52% tax rate on bond interest income.*

Another facet of the dividends received credit as it applies to corporate investors is the reduction in the dividends received credit to 62.12% on dividends received on preferred stocks of public utility companies issued before October 1, 1942, for which the payor corporation is allowed a dividends paid deduction. This provision makes such old or refunding utility preferred stocks less desirable from a tax standpoint than the so-called new money issues sold for new construction purposes after 1942.

In determining the relative desirability of different stocks for various types of investors, the tax treatment of the dividend income has come to be a factor of great importance. In fact, in certain instances the tax status of

the stock and its dividend payments may attain a level of importance close to or exceeding economic or financial factors. Just as the worker is less interested in his gross pay rate than in his "take home" pay, so the investor is more concerned with this after-tax yield than in his yield computed before the deduction of taxes. With this in mind, as the Federal income tax rates have mounted, investors in bonds have given increased attention to tax-exempts and stock investors have become more interested in equities which possess special attributes with respect to the tax treatment of the dividend payments.

The accompanying list of securities has been carefully selected to give you a choice from issues whose dividends for various reasons are cushioned against the high income tax levies END

For Profit And Income

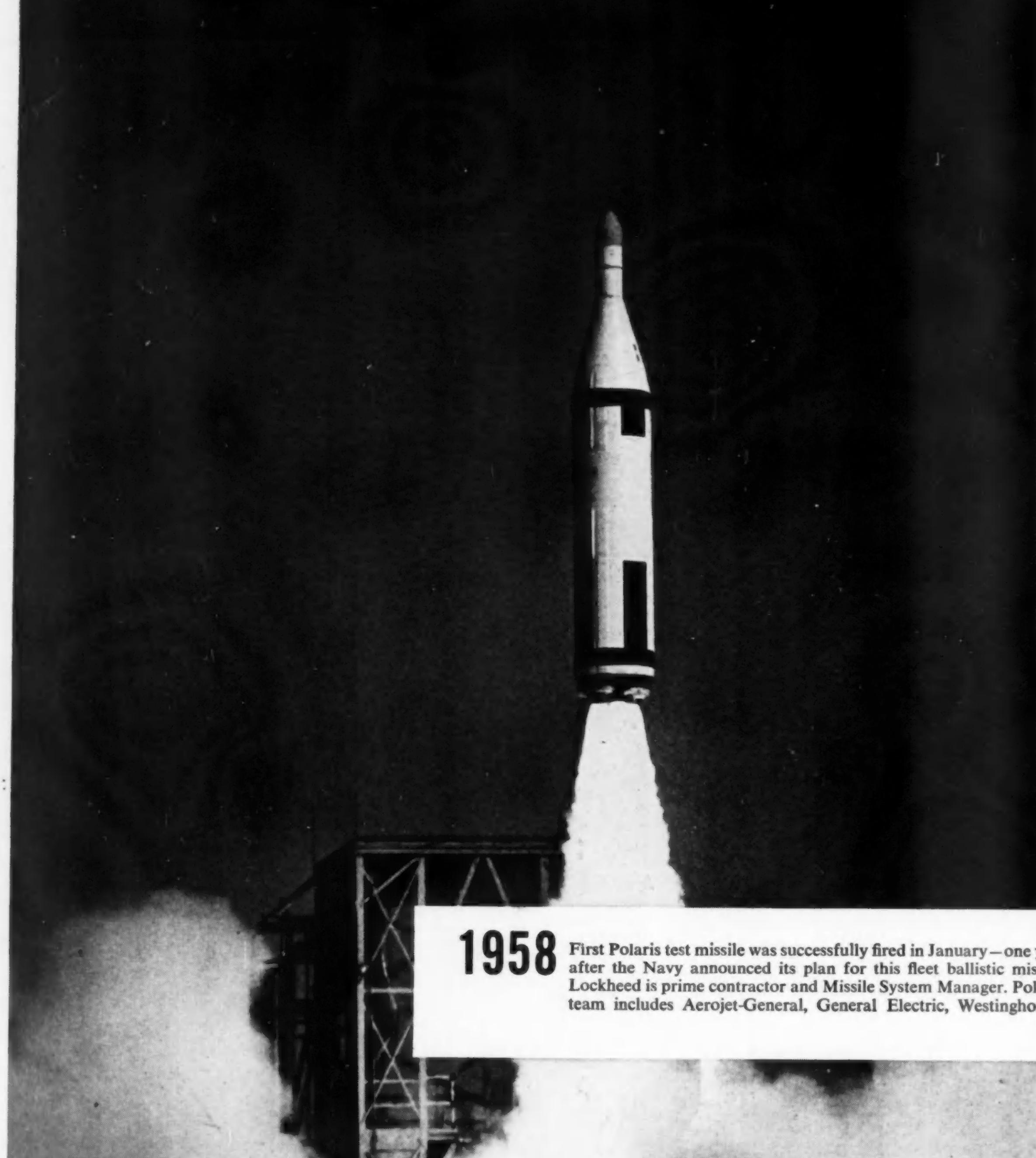
(Continued from page 249)

Of course, a split does not of itself increase a stock's intrinsic value. But splits are popular and they put stocks up, at least for a time. Some future split possibilities, perhaps within 12 months or less in some instances, are American Home Products, Ampex, Brown Shoe, Clark Equipment, Corning Glass, Firestone Tire, General Foods, International Paper, Litton Industries, Motorola, Texas Instruments, Union Carbide and U. S. Steel.

Trucks

Demand for heavy trucks is cyclical, but with more secular growth than that for light and medium trucks. (Compare truck movement of freight with that of railroads over the last decade). The leading heavy-truck specialists are White Motor and Mack Trucks. The former was recommended here in our August 1 issue at 56 and is now 60; the latter in our September 12 issue at 45½, now standing at 48. Steel shortage is a current-quarter factor, but 1959 earnings of the companies might still be in the vicinity of \$5.50-\$6.00 a share. Both should earn more in 1960. Both stocks remain reasonably priced speculations with further potentials. END

The Log of the Navy's Polaris



1958 First Polaris test missile was successfully fired in January—one y
after the Navy announced its plan for this fleet ballistic miss
Lockheed is prime contractor and Missile System Manager. Pola
team includes Aerojet-General, General Electric, Westinghou

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The Sahara-Libya Oil Finds

(Continued from page 235)

300 million to 600 million tons.

The Hassi Messaoud field is being worked jointly by the Government-owned S. N. REPAL and **Companie Francaise des Petroles.** Since the beginning of 1958 small amounts of crude oil from this area have been shipped to France via a temporary "baby" pipeline to the railhead at Touggourt and from thence by tankcar 275 miles to the seacoast. Last month a new 24-inch pipeline was put into service running directly north through Algeria proper to the port of Bougie. Throughout its entire 400-mile length, the line is buried 4 feet in the ground to minimize danger of sabotage. Initial capacity is 5 million tons annually, but additional pumping stations will raise throughput to 14 million tons within a year.

The Vast Natural Gas Deposits

While searching for oil in the Sahara, enormous quantities of natural gas have been found. CREPS has located large gas bearing structures 700-miles deep in the Central Sahara, but distance precludes their exploitation for the time being. Of greater commercial significance are the vast gas deposits that S. N. REPAL found three years ago at Hassi R'Mel, just 250 miles from the Mediterranean. Since reserves here are estimated as high as 1,000 billion cubic meters, various means are under study for moving this cheap fuel to energy-hungry Europe. Most likely bet is piping the natural gas to the coast, then compacting it under low-temperature pressure to liquid methane (a technique recently developed), tankering it across the Mediterranean in specially refrigerated ships, and reconverting it to gas for distribution through European pipeline networks.

French Oil Concessions

In early 1958 the French reissued some expired concession permits and nine foreign companies came in on participation deals. The French reportedly were disappointed that none of the well-financed American majors asked for concessions. **British Petroleum** took a 50% share in the French firm SPV, and the Italian company **Ausonia Mineraria** formed a joint operation with PETROPAR. The others were American independents: **Cities Service** and **Phillips** each joined two French companies to explore large concessions; **Sinclair** and **Newmont Mining** pooled with SAFREP; Pan-American (a subsidiary of **Standard of Indiana)** and **Franco-Wyoming** formed a company with PETROPAR; and **Canadian Delhi Oil Ltd.** organized a syndicate with several small American and French firms. No significant discoveries have yet been reported by any of these newcomers.

With development of the Sahara's oil costing a hefty $200 million a year, the French decided at the end of 1958 to open the door a little wider to foreign participation. A new oil law for the Sahara Region was passed which the international oil companies have termed reasonable. Exploration permits are to be granted for 5 years with two renewals possible; producing concessions extend for 50 years with the 50-50 profit split guaranteed for the first 25 years. On the controversial question of controlling interest, no legal ceiling is placed on the degree of foreign participation, but the Government continues to have wide discretion in granting permits. For the past year, **Standard Oil of New Jersey** has reportedly been negotiating the basis for a joint enterprise with Companie Francaise des Petroles.

U.S. Companies Leading in Libya

In marked contrast to development of the Algerian Sahara, private oil companies — mostly American — are running the oil show in Libya. The first foreign concessions under Libya's "model" oil law were granted at the end of 1955. This was a straightforward piece of legislation designed to attract private investment, and private investment is what Libya desperately needs. A noted Canadian economist, writing about the country several years ago, said:

"Libya provides an example of universal poverty in an extreme form . . . where there are no sources of power and no mineral resources,

where agricultural expansion is severely limited by climatic conditions, where capital formation is zero or less, and where there is no skilled labor supply."

Obviously oil can mean a lot to a country like Libya, if the royalties are intelligently used. In any case, oil is probably Libya's only hope for becoming a nation in the real sense. It comprises three quite separate provinces — Cyrenaica, Tripolitania, and the Fezzan — which were joined under United Nations auspices and given full independence in 1952.

Initial oil exploration and drilling was in the Fezzan region of southwest Libya adjacent to Algeria's Edjale field discovered in 1956. **Standard Oil Company (N. J.)** found traces of natural gas and small amounts of crude in this area at the end of 1957 (see map), but after drilling a dozen mostly dry holes it transferred its work parties to Cyrenaica province. **Gulf Oil Company** and several others also did exploratory work in this area, but no oil flows were discovered with sufficient potential to justify a long pipeline to the Mediterranean coast.

Considerably more success has recently been recorded in the north. Anglo-Saxon Petroleum, a **Royal Dutch Shell** subsidiary had a good yield earlier this year from a test well about 120 miles south of Tripoli, and it is now drilling a stepout. At Emgayet, 80 miles south of this, **Gulf Oil Company** is making further tests in the vicinity of its discovery well which flowed commercial.

Further east, in the Gulf of Sirte area, results have been even better. Oasis Oil Company, operating on behalf of **Ohio Oil, Amerada Petroleum,** and **Continental,** has put down three successful wells about 75 miles from the coast and it is currently drilling two more tests in the vicinity. The terrain is generally flat, and a pipeline to the Mediterranean could readily be built.

In this same general area, Libyan-American has a successful well on its concession. This is a joint operation of **Texas Gulf Producing** and **W. R. Grace & Co.** About a 100 miles to the southwest at Beda, American Overseas Petroleum, one of the Caltex group **(Standard of California** and **The Texas Company),** recently obtained a strong flow on a discovery well at 4,000 feet depth. It is now putting down a second well in the vicinity.

The most spectacular producer yet found in Libya has been **Jersey Standard's** Zelten 1, only 100 miles from the Gulf of Sirte. Brought in at a depth of about 5,500 feet last June, it flowed at the amazing rate of 17,500 bbls/day on test. Zelten 2 completed last August tested at 15,000 bbls/day. Another step-out, Zelten 3, is currently being drilled. These yields rival the best in the Middle East; thus there is growing conviction that a field of major dimensions has been found. Several pipeline routes to the coast are now being surveyed, and the possibility of a refinery is under study.

Earlier this month, **Socony Mobil Oil Company** which holds concessions on 21 million acres in Libya, announced that it had struck oil in the eastern part of the country 100 miles from the Mediterranean. Pan American, a **Standard of Indiana** affiliate, and **British Petroleum** have both been doing survey work and test drilling in eastern Libya. The Oasis group and **Hunt International** are planning to drill near the Egyptian border. Elsewhere in the country, **Compagnie Francaise des Petroles** and **Deutsche Erdoel AG** are actively searching for oil.

Although the oil hunt in Libya got off to a somewhat later start than in the Algerian Sahara, it is proceeding now at a more feverish pace, sparked by fierce competition betwen the great international oil companies. *Despite a temporary surplus in world crude supplies, North African oil will have such a strong advantage in the nearby European market that no major oil company dares take the risk of being left out.*

Libya's Ambassador to the United Nations reaffirmed his country's oil policy in a recent speech to oilmen in Houston: "The declared policy of the Libyan Government is to respect its obligations contained in the current concessions." He added that his government had no intention of seeking an increase in the 50-50 profit split with foreign oil companies, or of asking more than 50% for future concessions. END

Market Leaders Up 30% or More

(Continued from page 244)

97% of volume. Sales have increased from $24 million in 1954 to $65 million last year and should continue to mushroom in the sense that the more cameras which get into the hands of the public, the more film and other accessories can be sold. Although the Land Camera is not a fine camera in the technical sense, it appears to fulfill the American need for snapping pictures in opposition to the more studious interest in photography so prevalent abroad. Earnings have risen over the past five years at an average clip of around 50% a year. This year's sales might reach the $100 million mark, and earnings are estimated at around $2.60 a share. The common shares fell from a previous high in the mid one hundred fifties to around 110 in general market weakness aided by a rumor that the Japanese were going to introduce a comparable type camera — this although the Polaroid process is considered to be strongly protected by patents. Polaroid stock proceeded to recover strongly on some institutional buying coupled with increased company advertising and promotion of three excellent new products. The most significant of these products is a superspeed film which enables the photographer to take indoor pictures in a normally illuminated room without flash. A companion product is the novel Wink-Light which fills the shadows in indoor photography where the light is highly directional. Although it is well within the realm of possibility that earnings will continue to increase, the situation is not without risk in the sense that some other company might come up with a different system of instant pictures that would challenge Polaroid's monopoly. Additionally, Polaroid cameras are expensive, and in a recession type economy, profits could be seriously affected. At its recent price of 157, Polaroid is selling some sixty times estimated 1959 earnings. Although Polaroid's future appears interesting, it seems to me that the stock over the nearer term may have overrun itself.

American Motors and Studebaker-Packard have also been front runners in the September and October derby. Both companies have benefited by the steel strike in the sense of having proportionately greater inventory of metal on hand than their "Big Three" competitors which would have permitted production into next month even if the workers had not been forced back to the mills by the 80-day injunction. The strike, with the attendant implication of possible shortages served to bolster sales of all makes and models at the retail level. Apart from the above considerations, I do not put the two companies in the same category.

American Motors has done a magnificent selling job under the able leadership of George Romney. With production centralized in two main plants, American Motors has the lowest costs of any of the major automobile manufacturers. American Motors offers a fuller line of small cars. Its dealerships are well organized; its customers' loyalty high. Last year American Motors made good on its promise of sales of around 350,000 cars. This year the company is budgeting for sales of 500,000 vehicles. Realization of this goal would produce proportionately higher earnings than the estimated $10 per share in fiscal 1958-59. Even though the favorable earnings outlook could have been anticipated earlier in the year, the stock of American Motors was retarded by investors' fear of the withering competition of the "Big Three" for the small car market. In my opinion, American Motors could well increase its position in the small car market, but only the test of actual competitive battle in the months ahead will tell the story.

Studebaker-Packard is a horse of another color. Its compact car, the Lark, seems to be selling very well, and the estimated earnings for 1959 should approximate $3.50 a share. But in evaluating the earnings, it is well to bear in mind the tax advantage in Studebaker - Packard's huge tax loss carry - forward exceeding $100 million. As a consequence, the company is seeking a suitable merger where it can cash in on this advantage, and recent reports have linked the company with Oliver Corp. All of the above have given Studebaker-Packard a keen interest among professionals and speculators, but in looking to future earnings expectations you must allow for normal tax deductions and the dilution which will stem from the conversion of the preferred stock in 1961. If operative this year, this factor would have meant a reduction of earnings to only about $1.00 per share.

International Packers which has risen 50% in price over the last two months is the largest South American meat packer with operations in Argentina and Brazil, as well as Australia and New Zealand. International Packers buys, slaughters and dresses cattle, sheep and hogs and produces canned and refrigerated meats and related products. Products are marketed under various brands including Swift and Armour. International Packers, whose consolidated per share earnings were $2.68 last year, has sold at a low price-earnings ratio because of the weakness of the South American currencies and the regulatory attitude towards the price of beef which was imposed in Argentina and Brazil as a means of controlling inflation. Price fixing regulations in Argentina were relaxed earlier in the year, and International Packers is embarking on an expansion program of around $16 million to be financed in part by the Export-Import Bank. Stock has moved up sharply based on favorable earnings estimates of around $3.50 this year on a consolidated basis with hopes for $5.00 per share next year. Additionally, the stock appears to have a strong technical position. The shares at their recent price of 24, are selling at but seven times estimated 1959 per share earnings, and, although I am inclined to regard it as speculative, the company seems to have reached a turning point for the better in its affairs. END

Schenley Industries and National Distillers

(Continued from page 247)

a block of common, struck a snag when the Department of Justice moved to compel Pabst to dispose of the Blatz properties. The case

is being litigated in the courts.

Both companies have benefited substantially from enactment of the Forman bill extending the bonding period to 20 years from eight, as mentioned earlier. Beneficial effects of this legislation still are being experienced and removal of pressure on the market of excess aged inventories should pave the way for modestly higher prices for straight whiskies in 1960, thereby retsoring margins to levels prevailing three or four years ago. This development encourages the outlook for more satisfactory earnings in the coming year.

National Distillers Acquisitions Run to Chemicals

For those who place great weight on growth, the diversification program embarked upon by National Distillers almost ten years ago should have appeal. Management determined soon after the war to emphasize chemical aspects of the distilling business and enlarge unexploited areas. Production facilities for industrial ethyl alcohol and polyethelene have been acquired and enlarged. Other petro-chemicals include liquefied petroleum gases, while heavy chemicals include metallic sodium as well as chlorine and caustic soda. Fertilizer ingredients also are produced. Thus the company has a sizable position and enjoys an extensive market in chemicals.

Acquisition of the Kordite Corporation from Textron more than a year ago enabled National to gain an important position in producing polyethelene film from which garment bags and packaging films may be converted. Promising long term growth in supplying this new form of packaging and wrapping material is envisioned for this division. National also has obtained a one third interest in Mallory-Sharon Metals, engaged in producing titanium and zirconium sponge, for which significant markets in the military program are envisioned.

National's Earnings Position

Chemical activities are estimated to have accounted for between 35 and 40 per cent of 1958 earnings and are expected to contribute about 40 per cent of the estimated $2.25 a share projected for this year. Management is hopeful of obtaining an even division of earnings from the two principal activities in another year or two. Assuming that chemicals may contribute approximately 90 cents to $1 a share for 1959, it may be figured that the stock at recent prices was evaluating such earning power at 16 to 17 times, while the distilling operations by contributing perhaps $1.30 a share might be appraised at about 12 to 13 times earnings.

In view of a promising outlook for 1960, with removal of excess inventories of aged whiskies, and indications of increasing consumer preference for straights, long range estimates suggest that National Distillers might improve earning power to perhaps $2.75 a share for the coming year. If the 50-50 division of profits could be attained, one might look for chemical operations to account for net profit of about $1.35 a share.

Comparing the Operations of Schenley and National Distillers

Schenley is more closely identified with the alcohol beverage industry. Hence, sales and earnings are likely to be influenced to a greater extent by trends of the distilling industry than by activities in other areas. Population growth and consumer preferences will be important factors. Thus whereas, a sharp setback in demand for chemicals—such as experienced in 1958—would have an impact on operations of National Distillers, the effect in the case of Schenley would be negligible. Consumer demand for whiskey and other alcoholic beverages is fairly steady. Trade surveys show a gradual shift in preference to products such as vodka, gin and wines, but the overall effect on Schenley's business is comparatively small. Whiskey's share of bottled spirits is estimated to have declined from slightly above 80 per cent to about 72 or 73 per cent currently. Demand for vodka has increased sharply, but still represents a small proportion of the public's purchases of bottled spirits.

Because Schenley has such extensive inventories of bourbon and other aged whiskies benefits of the Forman measure should prove especially significant. Until the remedial legislation had been approved, the company was compelled to pay taxes on spirits in bond for longer than eight years or to dispose of the inventories in any manner possible. Valuable stocks on hand nearing the age limit were diverted to blending purposes even though less costly ingredients would have served. Fully aged liquor was used in blends instead of younger supplies at a sacrifice of profit. Superior quality liquor was marketed in bulk at distress prices to avoid complete loss.

With approval of an extended tax-free holding period for whiskey in bond, more orderly marketing procedures could be adopted. The wholesale market has been surfeited for months, however, and only recently has there been some indication of a firming tendency in prices. Quotations on straight whiskies are expected to stiffen in coming months in reflecting gradual exhaustion of inventories purchased at distress sales as well as an upward trend in distilling costs. Prospects appear promising for more satisfactory profit margins in the coming year.

In an effort to get a flying start on the 1959-60 fiscal year, Schenley management undertook vigorous promotion of products for the holiday season. New packaging ideas were introduced to stimulate sales. Although it is too early to determine complete results, preliminary surveys have proved encouraging. Trade authorities have projected retail sales for the holidays comparing favorably with volumes in recent years. The advertising campaign was concentrated on distribution of Scotch and Canadian whiskies, products that provide better-than-average profit margins. The company's principal whiskey brand names include I. W. Harper Schenley Reserve, Three Feathers, Golden Wedding and J. W. Dant.

Although growth potentials in chemicals generally are stressed in discussing long range prospects for National Distillers, the company's position in alcoholic beverages is anything but second rate. Recognizing importance of a shift in consumer preferences to straight whiskies, management has increased emphasis on brands in this category with the result that about 80 per cent of output consists of straights. Trade surveys indicate that between 40 and 45 per cent of whiskey output

currently consists of straights, as compared with less than 25 per cent as recently as five or six years ago. National's principal brands showing impressive growth include: "Old Grand-Dad," "Old Crow," and "Old Taylor" bourbons. Other major products are "Vat 69" scotch, "Gilbey's" gin and "Cinzano" vermouth.

Despite the fact that some investors have formed prejudices against companies engaged in producing and distributing alcoholic beverages, others look upon liquor stocks merely as potential sources of capital gains or as producers of income. Both National and Schenley have attained leading positions in their industry and stand to benefit from long range population growth and expansion of markets. In addition, diversification programs undertaken in recent years have bright prospects for the future that should merit more liberal market appraisal in due course. END

The Behind-the-Scene Story of the Ruthless Use of Power by the Giant Steel Union which Forced Kaiser to Settle

(Continued from page 215)

this committee's recommendations, is to negotiate a profit-sharing or broad incentive program, the union will obviously want to scrutinize depreciation charges. *If management decides that accelerated amortization is warranted, because of the high cost of replacing obsolete equipment, the union might say, "No!" because such conservative accounting would reduce incentive or profit-sharing payments to workers.*

The "look-at-the-books" issue is one on which management has taken some costly strikes. Thus far it has won each time; but Edgar Kaiser has indicated that he sees no objection to letting the union scrutinize the company's records as the basis for negotiations. He has apparently moved a step — a long step — towards the joint labor-management committees which Walter Reuther has long sought unsuccessfully to achieve.

The things that the Kaiser contract does not do are almost as important as the innovations which it would attempt to foist on the entire steel industry. *Since 1956, there have been 700 wildcat strikes in the steel industry.* Management has been trying to obtain clauses which would give them a chance to stop such costly, unauthorized work-stoppages. *But the union has refused to give an inch in this area,* and the Kaiser agreement reflects the non-cooperative attitude of the union leaders.

This was an area in which the union could have given good-faith evidence of its responsibility to improve productivity and make progress towards lower costs. But the top union leaders again said—"no," and Kaiser signed on the dotted line.

For Kaiser, operating on the Pacific Coast in an area where the supply of steel is well below the demand. and where he has thus far been able to obtain premium prices for steel well above the usual list prices quoted at Eastern and Middle Western points, the question of costs may not seem too important at the moment.

But the conservative steel leaders of the nation have seen their labor costs sky-rocket in recent years. They have witnessed the loss of most of their export market, and have seen imports soar to a level of 4 million tons or more. Competition from plastics, aluminum and cement has become keen. To these men, it seems vitally important to stop the march of labor cost inflation in the steel industry.

If inflation is not checked through the negotiation of a sound, fair contract, it will not be stopped in other key negotiations which are coming up—on the railroads, in electrical equipment, among dock workers, etc. The Kaiser settlement must be deplored, therefore, because it would wreck current administration efforts to stabilize the dollar, if it became a pattern for the industry.

It has taken a great deal of courage on the part of the steel industry to hold the line in the face of the Kaiser settlement, the virulent propaganda paid for out of the treasuries of the rich steel union giants—and the concerted widespread attacks from their cohorts in other unions, girded monopolistically and financially for a grab of their own.

The autocratic Barons of union leadership will be wrong in believing that the politics of a presidential election year will prevent Congress from enacting legislation that will break their dangerous and monopolistic hold. If they have any such ideas they are not counting sufficiently on the wrath of the citizens to put it through. END

Exploding Population A Local Problem

(Continued from page 221)

(Small-scale exceptions may occur; Brazil is currently welcoming selected Japanese immigrants). This attitude is not, however, limited to Caucasians. Malaya and Thailand have long been struggling to check the flow of Chinese immigration that threatens to inundate them, and in South Africa many of the riots have originated in frictions between Africans and Hindu migrants.

How To Solve this Dangerous Situation Which Contains the Seeds of War

Unless an outlet is to be found in war and invasion, these countries will be obliged to solve — or endure — their population problems on their own initiative and within their own borders. Nevertheless, informed assistance by ourselves may do much to ease these pains and thwart more violent solutions. In brief, a callous disregard of their population difficulties would be both inhumane and short-sighted.

It will take our money to constrain these immediate pressures, to plan for long-range solutions. ► Continued emergency donations of food and clothing may be required. ► The program should nevertheless look beyond mere maintenance of large populations on a subsistence basis, and aim at the eventual self- sufficiency of the countries concerned. ► The formation of local capital, i.e., of factories, machinery and tools, is essential. Such organizations as the World Bank are already working in this direction, but vastly increased in-

vestments, preferably from private sources, are called for. It is the responsibility of these countries to create a climate that is hospitable to both foreign and local capital.

This Must Be A Joint Undertaking Among the "Have" Nations

The United States should not, however, be obliged to labor alone in this task. The technically advanced and now fully recovered countries of western Europe should also be prepared to contribute from their own resources. Within Asia, Japan could assume leadership in the quest for a peaceable solution of the population problem. Japan has, of course, lost prestige because of her war brutalities, but as these recede from current memory, guidance by a fellow Asiatic nation, without any hint of "White superiority", might prove more acceptable to such countries as India, Ceylon and Indonesia. Japan's frank recognition of and conspicuous success in handling her own population problem lend hope to such a suggestion, although admittedly the conditions in southern Asia contrast sharply with those in highly industrialized, well-educated Japan.

It Cannot Wait

Throughout this article the word "solution" has been freely used. However, the analysis makes it clear that no true solution is going to be discovered for the urgent population problem appearing in many localities in the world and most pressing in Asia. The best that can be expected is a mere palliative, with some hope of a genuine solution at some more remote time in the future. But the pressures are so intense, the situation so explosive, that is imperative to work hard even for a palliative. This program must be a cooperative effort by the countries most immediately involved and the more comfortably endowed nations. The have-not countries, further handicapped by a monumental birth rate, must face their problems frankly and choose among what may seem to them to be only the lesser of unavoidable evils. The rest of us had better take an active interest in the same problems, even to the extent of sharing our own resources, or we may be confronted with extremely disagreeable results entirely indifferent to national boundaries.

END

1959 3rd Quarter Earnings

(Continued from page 239)

the third quarter alone), but from Alcoa's experience Olin may have to wait several years before it begins to reap significant profits from the operation.

Other Reports

Among the more impressive reports in this year's third quarter are several specialty companies. **Brunswick-Balke-Collender** has been a market favorite for many months and justified that faith with an exceptionally good third period. Sales jumped to a record $108 million from only $86 million a year earlier and earnings rose to $1.72 per share from $1.03. Also contrary to most company experiences, third quarter results towered over the 60¢ earne in the second quarter.

Motorola, another high flier in recent markets also turned in excellent results. Sales rose for the fifth successive quarter and earnings rose to a healthy $1.86 per share from $1.69 in the previous three months and only 90¢ in the third quarter of 1958.

By contrast, **Philco,** which had been in the process of good recovery was not able to top last year's 46¢ per share even though earnings were the best for any quarter this year.

Both companies will have to keep a wary eye on Japanese imports in the year ahead since Far Eastern radios are a bigger and bigger part of the domestic market. So far this year, 2 million units have been imported.

Summary

Declining profit margins, the impact of the steel strike and an inevitable tailing off of earnings growth after the initial post-recession surge, have all combined to slow down corporate earnings growth.

On top of this however, there is growing evidence of increasing trouble in several vital industries. The oil industry, as readers of this magazine know, is in the throes of long range difficulties. Earnings improvement so far is the result more of reduced capital outlays than better operations. Thus **Shell's** moderately good performance and **Texaco's** excellent earnings must both be viewed with a certain amount of question.

In addition to oil, construction equipment companies and building materials producers will have their operations cut next year by tight money and lower spending for new housing. This in turn will make the lot of the appliance makers more difficult since new homes still absorb the greatest portion of their output.

Farm equipment makers are facing a period of lower farm income, with tight money cutting farmer's effective demand even further, and rail equipment makers face a period of uncertainty due to the impending unrest in the rail industry.

There is no sense undervaluing the enormous vitality of the American economy, but at the same time we should not blind ourselves to the facts as they are —and they are far from universally pleasant. For they spell greater difficulty in raising profits, a situation which may make the current level of the stock market a very vulnerable one.

At this time, when all eyes are concentrated on the post steel strike resurgence, it is well to be aware of the fact that not all of industry's troubles stem from that one cause. At least consider the possibility that it is masking other basic problems.

END

Market Tests Ahead

(Continued from page 217)

1959 will go into the record as a dynamic year. With the cycle increasingly mature, 1960 would do well to bring gains half as big, in the broader measures of economic activity. If you are a satisfied, long-term stockholder, sit tight. If not, consider some switching for tax and quality-improvement purposes. If you have reasonable liquid reserves for later stock buying, maintain them.—Monday, November 16.

Answers to Inquiries

(Continued from page 255)

"though a cost factor last year, these expenditures will become an increasingly important growth factor in the new year". He said that several new products would be ready for marketing early in calendar 1960 and that the first major achievement in the product improvement area is expected to be announced shortly.

The company has passed the September quarterly dividend in order to conserve cash in order to finance the company's growth program. Previous quarterly dividends this year were 10 cents per share but in 1958 total dividend payments were $1.00 per share.

Whereas typewriters accounted for 80% of the company's volume three years ago, last year on larger sales they accounted for only 42%, and two new product lines, calculators and printed communications equipment, which were added as a result of the mergers with Marchant and Kleinschmidt, contributed another 36% to sales. The remaining 22% came from service and other products.

The company plans to introduce several new products which they hope will have an increasingly favorable effect on future sales and earnings.

Harris Intertype Corp.

"Please indicate growth plans of Harris Intertype Corp. and also recent annual earnings."

F. G., Cleveland, Ohio

Harris Intertype's growth plans are based on a continuation of heavy research and development activities and on its acquisition program. During the past decade the company has plowed about $20 million into engineering and research for product development, of which almost half or around $10 million is in products on which profits are just beginning to be realized.

Continuous explorations of acquisition opportunities are being made, according to the chief executive, with fields of interest including "various complementary areas in the printing equipment and supply field, the electronics field with emphasis on communications and instrumentation, and possibly other areas in which the profit potential appears attractive and which fit into company's overall objectives".

Shipments of printing, publishing and broadcasting equipment reached a new high of $63,860,000 for the fiscal year ended June 30, 1959, compared with $57,914,000 for fiscal 1958. Net earnings were $4,515,000 or $3.90 per share, against $2,952,000 or $2.53 per share last year. The increases reflect results of the internal readjustment program instituted in the previous fiscal year and improvements in general business.

In the September 1959 quarter, net shipments amounted to $15,481,000 with net income reported at $1,114,532 or $.92 per share. For the similar first fiscal quarter of 1958, shipments were $13,577,199 and net income $765,277, equal to $.66 a share.

Earnings reinvested in the business and increased turnover of inventories and receivables contributed to a further strengthening of the company's financial position. At the end of fiscal 1959 cash and Government securities totalled $14,843,000, compared with $7,871,000 last year. The ratio of current assets to all liabilities, including long-term debt, was almost 3 to 1.

The company regards the outlook as promising and the current fiscal year appears favorable because of a larger order backlog at the beginning of the year and anticipation of sustained strength in the national economy. Longer term prospects are favorably influenced by the growth and stability of American advertising, from which the company's customers derive 75% of their revenues; and by the continued growth in demand for offset lithographic printing presses and supplies, which constitute the largest segment of Harris Intertype's sales. Late in September, the company's president, George S. Dively, informed stockholders at the annual meeting that the company should report earnings in the third quarter of about $0.80 to $0.85 cents a share. In the corresponding 1958 quarter the company earned $0.66 a share.

The company recently declared a stock dividend of 5% in addition to the quarterly dividend of 37½ cents per share. END

Book Reviews

The Gold of Troy

the story of Heinrich Schliemann and the buried cities of ancient Greece

BY ROBERT PAYNE

During the seventies and eighties of the last century, an old gray-haired scholar, shabbily dressed, was to be seen wandering over the ruins of an obscure mound in Asia Minor. There was something of the peasant about him, something too of the Lubeck merchants who were his ancestors. Always he carried in his coat pocket a dog-eared paper-bound edition of the *Iliad* or the *Odyssey*. The most unscientific of archeologists, Heinrich Schliemann founded the modern science of archeology.

By the age of forty-four, Schliemann had made four fortunes. He had visited half the countries of the world, sired three children by a frigid Russian wife, and learned twelve or thirteen languages.

Outwardly he was the very prototype of the successful business executive. The inward man, however, bore very little resemblance to the image he showed to the world. For many years his wealth had tasted like ashes in his mouth. He had learned that intense desire and hopeless sexual passion could drive a man to insanity. But still he did not know his own mind, or what he wanted, or what direction to pursue. Then, while studying philology at the Sorbonne in his forty-sixth year, he remembered the stories of the ancient Greek heroes which had fascinated him as a child. In the stories of Homer, he found truth. If, somehow, he could return to the mysterious past, he knew that his destiny would be fulfilled. So he set out to uncover the buried city of Troy.

Against hope, against reason, against all the evidence, this strange man discovered the walls of Troy, King Priam's palace, and enough antiquities to furnish a whole museum—crowns and diadems of gold, gold breastplates, gold masks, gold-hilted swords, and the treasure hoards of Mycenae and Troy.

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Johannesburg, South Africa

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